S. HRG. 100-593

A NEW PROPOSAL BY THE FOREST SERVICE TO GOVERN ADMINISTRATION OF THE SMALL BUSINESS TIMBER SALE SET-ASIDE PROGRAM

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

A NEW PROPOSAL BY THE FOREST SERVICE TO GOVERN ADMINISTRATION OF THE SMALL BUSINESS TIMBER SALE SET-ASIDE PROGRAM

MARCH 2, 1988

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HEARING DATE

March 2, 1988:

- Afternoon session 1

A NEW PROPOSAL BY THE FOREST SERVICE TO GOVERN ADMINISTRATION OF THE SMALL BUSINESS TIMBER SALE SET-ASIDE PROGRAM

WEDNESDAY, MARCH 2, 1988

U.S. Senate,
Committee on Small Business,
Washington, DC.

The Committee met, pursuant to notice, at 2 p.m., in room SR-428A, Russell Senate Office Building, Hon. Dale Bumpers (Chairman of the Committee) presiding.

STATEMENT OF HON. DALE BUMPERS, U.S. SENATOR FROM THE STATE OF ARKANSAS

The Chairman. The Committee will come to order.

In deference to our time constraints and the rather long list of witnesses, I will simply insert my opening statement in the record.

I think everybody knows what we are here for, and they understand the issue, and why the hearing is being held.

Let me also say to all of you, we will have to at some point put a 5-minute limitation on your oral statements, so I hope you can summarize. Some of the statements are rather long, and we would be here until late in the evening if everybody read all of their statements.

So I am going to ask some of you at least—I notice some of the statements are rather brief, and that is fine, we want to hear them. Some of them which are, I will not say unduly long, but rather long, I hope you will be able to summarize your statements in the interests of getting out of here at a respectable hour.

We held an oversight hearing on this matter in Hot Springs, AR back in 1982, and since that time, the situation apparently has gone from bad to worse, at least in some of the Western States, and there is a great deal of concern about these small timber set-asides.

Senator DeConcini was to be our leadoff witness. I see he is not here yet, and pending his arrival, then, we will proceed with Ms. Monika Edwards Harrison, who is Associate Administrator for Procurement Assistance, Small Business Administration; and Mr. George Leonard, Associate Chief of the Forest Service, Department of Agriculture.

[The prepared statements of Senators Bumpers, Pressler, D'Amato, and Dixon follow:]

STATEMENT BY SENATOR DALE BUMPERS
CHAIRMAN, SENATE COMMITTEE ON SMALL BUSINESS
THE SMALL BUSINESS TIMBER SET ASIDE PROGRAM
MARCH 2, 1988

Today, the Committee is holding hearings on the Small Business Timber Set Aside program, a small business procurement assistance program that has proven vital in protecting the legitimate interests of small businesses competing for their fair share of federal government sales as mandated by the Small Business Act. The current small business timber set aside program is a joint program between the SBA and the Department of Agriculture and has been in effect since 1971.

The program involves the sale of federal timber in the nearly 160 National Forests managed by the U.S. Forest Service. Last year, set aside sales accounted for nearly 13% of all federal timber sales. Using market information from 1966 to 1970, the USDA established market shares within each national forest for small businesses. The share was based on the historic purchases for that forest. Every 5 years the share is recomputed, with a limitation that no base share may be reduced by more than 50%.

Within these 5 years, the program periods are broken into 10 six-month periods. In the first period, all sales are in open competition. If the small businesses make their "share percentage" of purchases, then the program enters the next period with all sales being open. However, if the small businesses don't make their "share percentage" of purchases, sales in the next six-month period will be set aside, and they will continue to be set aside until the aggregate deficit is removed. If the deficit is removed during this period, the set aside is lifted. If the deficit is not rectified, the set aside is reinstated for the following six-month period. The only limitation on operation of the set-aside is that at least 20% of all sales in any period must be open.

The issue before the Committee today is the attempt by the USDA to change the Small Business Timber Set Aside program, as proposed in the Federal Register on September 25, 1987. At the end of the initial 45-day comment period, I requested a 45-day extension from the USDA which was granted. Later, the Department and I agreed on an extension until April, 1988, so that this Committee would have sufficient time to hold a hearing on this issue.

Under the proposed regulation, the Forest Service will freeze market shares in the far western United States, Regions 1 through

6, and will reduce the recomputation threshold from 10% to 5%. The Department will also provide for a new review in 1991. The proposed regulations will have the greatest impact in the states of Montana, Idaho, California, Washington and Oregon. These are the areas where competition among large and small firms is most intense. A study on share computation will continue for the eastern regiRns 8 and 9. Small businesses in my state, however, have contacted me to express that the same mischief which they believe the Forest Service has in mind in the West will soon be headed in their direction.

In 1981-82, the USDA studied this program and published regulations in November 1984 to effect reforms. Several large and small timber business groups were involved in developing the reforms, after meeting in what was called the Denver Accords. These regulations placed an 80% cap on the share amount of any National Forest timber sales reserved for small business, made change in the method of computing the small business share--from using purchase history only to using purchase and harvest history. The regualtions also made a change in the structure provision--if a small firm goes out of business or is purchased by a large business, and this business accounted for at least 10% of the small business share, within three years the share would have to be recomputed.

The publication of these proposed regulations drew many comments, primarily from small businesses in opposition. Changes in the regulations were effected, incorporating several recommendations from small businesses plus new program ideas by the Forest Service, and final regulations were published in June 1985. Following publication of the final regulations, to be implemented in fiscal 1986, a large timber association, the Public Timber Purchasers Association, filed suit claiming that the final regulations were substantially different from the proposed regulations published in November 1984. The USDA, in settlement, agreed to take new comments on the final regulations, which it did until April 11, 1986. From this date until September 25, 1987, the regulations were bottled up in the office of the Secretary of Agriculture.

During that time, then-Assistant Secretary for Natural Resources and Environment George Dunlop got involved. The regulations published on September 25, 1987, were substantially different than those published in 1984 and 1985. The new proposed regulations would freeze market shares at the 1985 computation level, change the structural change threshold from 10% to 5%, and would provide for a new review in 1991.

These proposed changes have been alleged to favor large businesses. Freezing shares has long been sought by large timber businesses. It provides no flexibility for small businesses who have tended to benefit from floating shares and seems aimed at repealing the last two years in which small businesses have been fareing well in open competition--in short, an effort to turn back the clock to 1985.

In many cases, large businesses abandoned many traditional timber areas of the West, along with the dependent communities, to go back to their private holdings, allowing small timber businesses to come in and take up the slack. These small businesses have a substantial investment in these areas, and have begun to develop business based on their reliance on adequate availability of federal timber. However, the large timber companies recognized that within a few years they may wish to re-enter many of these markets that have largely been abandoned to small businesses. To counteract the probability that small business may increase its percentage share, large timber businesses have waged a hard campaign to force small business to retreat from many of their gains of the last few years by requiring a freeze of shares at the 1985 recomputation level. The USDA acceded to the pressure by large businesses, against the advice of the Small Business Administration, its partner in this program, which argued that freezing shares now based on what may happen in 1991 was premature.

Additionally, adjusting the structural change threshold downward will make the acquisition problem for small businesses more sensitive. Cutting the threshold from 5% to 10% could bring the small businesses back to a sensitive situation of effectively having a bounty placed on their operations.

From 1958, with the signing of the first agreement between the SBA and the USDA, until 1971, small businesses were granted little more than lip service on the commitment by the Forest Service to the intent of Congress as established in Section 2 of the Small Business Act. The problem of no definable program standards was resolved in 1971, but small business timber concerns have since continually fought to prevent the dismantling of this vital program. For this reason, I am greatly concerned about the possible effect of these new proposed changes. The timber set aside program is one that this Committee has followed closely, and I can assure all interested parties that we will review the testimony given today, and that submitted for the record, with great scrutiny. I am pleased that the House Small Business Subcommittee on Energy and Agriculture held hearings on February 24, and I look forward to working with my colleagues on the House Committee and this Committee in addressing the issues discussed today.

STATEMENT OF SENATOR LARRY PRESSLER
before the
Senate Committee on Small Business
Small Business Timber Set-Aside Program
March 2, 1988

MR. PRESSLER. Mr. Chairman. Thank you for scheduling this hearing on the small business timber set-aside program and proposed changes in the program. This is an important issue for small lumber companies across the Unite States.

My home state of South Dakota has several small saw mills that bid on timber contracts in the Black Hills National Forest. In fact, the current small business allocation in the Black Hills National Forest is 60 percent. The allocation was increased in 1985. Small businesses have purchased their share for several years and the set-aside program has not been triggered. Since 1985, 67 percent of Black Hills timber sales have gone to small businesses. The figures for the Black Hills creates a picture of very competitive small businesses competing for timber contracts. However, that picture,could change very rapidly. One or two small South Dakota sawmills could be purchased by a larger firm and the picture would be dramatically changed.

For that reason, I am very interested in learning what the impact of the proposed changes would be on areas such as the Black Hills. I certainly want to maintain a healthy timber industry in South Dakota. That includes prosperous small businesses.

Mr. Chairman, I look forward to hearing the witnesses testimony and to working with you on this issue.

STATEMENT BY SENATOR ALFONSE M. D'AMATO
BEFORE THE SMALL BUSINESS COMMITTEE
MARCH 2, 1988

MR. CHAIRMAN, I WOULD LIKE TO WELCOME TO THE SMALL BUSINESS COMMITTEE THIS AFTERNOON OUR DISTINGUISHED PANEL OF WITNESSES WHO WILL PRESENT THEIR VIEWS ON THE SMALL BUSINESS TIMBER SET-ASIDE PROGRAM.

CONGRESS ESTABLISHED THE SMALL BUSINESS TIMBER SET-ASIDE PROGRAM IN 1971. THE PROGRAM HAS SINCE EXPANDED TO INCLUDE THE SALE OF FEDERAL TIMBER IN NEARLY 160 NATIONAL FORESTS. THE USDA ESTABLISHED MARKET SHARES WITHIN EACH NATIONAL FOREST FOR SMALL BUSINESSES. THE SHARES ARE BASED ON THE HISTORIC PURCHASES FOR THAT PARTICULAR FOREST AND ARE RECOMPUTED EVERY FIVE YEARS. THE SMALL BUSINESS SET-ASIDES UNDER THIS PROGRAM HAVE WORKED WELL IN ALLOWING THESE SMALL BUSINESSES THE OPPORTUNITY TO COMPETE MORE EQUALLY WITH BIGGER COMPANIES.

UNDER THE USDA PROPOSED REGULATION WHICH APPEARED ON SEPTEMBER 25, 1987 IN THE FEDERAL REGISTER, THE FOREST SERVICE WILL FREEZE MARKET SHARES IN REGIONS 1-6, AND PROVIDE

FOR A NEW REVIEW IN 1991. THESE CHANGES IN THE PROGRAM HAVE BEEN VIEWED AS UNFAVORABLE TO SMALL BUSINESSES.

WHILE THE PROPOSED REGULATIONS HAVE THEIR GREATEST IMPACT IN THE WESTERN PART OF THE COUNTRY, I AM VERY INTERESTED IN HEARING THE TESTIMONY OF OUR WITNESSES AND LEARNING MORE ABOUT THE EFFECTS OF THE PROPOSED REGULATION UPON SMALL BUSINESSES.

THANK YOU, MR. CHAIRMAN.

STATEMENT OF
SENATOR ALAN J. DIXON
MARCH 2, 1988

THANK YOU, MR. CHAIRMAN.

TIMBER SET-ASIDE RULES HAVE BEEN UNDER MUCH DISCUSSION THESE PAST FEW YEARS. NEW PROPOSALS HAVE COME AND GONE AND WE HAVE YET TO FINALIZE ANY OF THE REFORMS WHICH THE INDUSTRY AGREED TO IN 1985. I REALIZE THAT THERE WERE MANY CHANGES BETWEEN WHAT WAS ORIGINALLY SUGGESTED AND WHAT THE U.S.D.A. NOW HAS UNDER ACTIVE CONSIDERATION. I HOPE THAT TODAY'S HEARING WILL PROVIDE A FORUM FOR INTERESTED PARTIES TO EXPRESS THEIR VIEWS AND SUBMIT TO QUESTIONING ON THIS MOST RECENT SET OF RULES. WE NEED TO BE SURE THAT SMALL BUSINESSES WILL RECEIVE A FAIR PROPORTION OF THE TIMBER FOR SALE FROM OUR NATIONAL FORESTS. FAIRNESS, COMPETITION AND EQUITY SHOULD BE OUR OVERRIDING CONCERNS. I LOOK FORWARD TO RECEIVING TESTIMONY TODAY FROM OUR WITNESSES ON THIS IMPORTANT SUBJECT.

The CHAIRMAN. Ms. Harrison, please feel free to commence.

STATEMENT OF MONIKA EDWARDS HARRISON, ASSOCIATE ADMINISTRATOR FOR PROCUREMENT ASSISTANCE, U.S. SMALL BUSINESS ADMINISTRATION

Ms. HARRISON. All right.

Mr. Chairman, I appreciate the opportunity to appear before this Committee and to review the U.S. Forest Service proposed changes in the Small Business Timber Sale Set-Aside Program, and also to respond to your specific inquiries.

Also in the interest of time, I will attempt to summarize my statement and hope that you will insert the entire statement in the record.

The CHAIRMAN. Everybody's full statement will be inserted in the record.

Ms. HARRISON. Fine.

The CHAIRMAN. Thank you, Ms. Harrison.

Ms. HARRISON. I would like to say that the views expressed in my testimony are those of the Small Business Administration, and they are not shared, as you know, by the U.S. Forest Service which has proposed the procedures outlined in the Federal Register on September 25, 1987. We feel that it is appropriate for us to voice our concerns about these proposals because they are, in fact, proposals, and we have a different interest in the small business community than the Forest Service has, and we feel this is the appropriate time for us to make those views known to the Forest Service, and in this instance, to you.

As you know, the current Set-Aside Program has its roots in the Small Business Act, and we work with the Forest Service to ensure that small business receives its fair proportion of the total sales of government property. We believe that the purpose of that program is to ensure small business the opportunity to obtain its historical fair share of timber sold.

In looking at some of the important statistics, in fiscal year 1987 the Forest Service sold 3,236 timber sales. The total volume sold was 8.7 billion board feet. The total value of those sales was $1.1 billion, and of that total, only 12.6 percent was purchased as set-asides by small business concerns. We think it is important to note, then, that over 87 percent of saw timber volume was sold as open sales. That means, then, that they are available to both small business and to large business.

We believe that the current policy being proposed by the Forest Service is not in the best interests of the small business community, certainly as they have portrayed it to us, and we are interested in working further with the Forest Service to come up with a policy that we think addresses those concerns. We are representing our small business constituents.

We are opposed to freezing the small business share. We think that is the key element in determining the small business need for timber set-aside sales. We also think that freezing the share destroys the most basic and important principle, and one which is the cornerstone of the Small Business Timber Set-Aside Program.

We also believe that lowering the threshold for determining structural change is an invitation for additional problems. We believe that the small business share should never be construed in any way as belonging to an individual firm, but rather, that it should be construed as an asset that belongs to the small business community as a whole.

We think that the proposed policy would mistakenly encourage structural change rather than reflect the appropriate needs of small business.

I want to say that we do recognize the difficulty of setting policy in this area, and we recognize USDA's concerns about what may or may not happen in 1990. However, we believe that it is more appropriate to leave in place the current program which we believe provides a mechanism for treating unique circumstances that might arise in 1991. There may indeed be situations which would require adjustments in the share computation process, as there were at the beginning of this 5-year period, these should be dealt with in 1991 and not in 1988 without the benefit of the data that would be derived between 1988 and 1991.

I would like to emphasize that the SBA and Forest Service Timber Set-Aside Program has, in our opinion, in its current state, been highly successful in serving the small business forest products industry.

That concludes a summary of my prepared statement, and I would be pleased to answer any questions you might have.

[The prepared statement of Ms. Harrison follows:]

SBA U.S. Small Business Administration Washington, DC [illegible]

STATEMENT OF

MONIKA EDWARDS HARRISON

ASSOCIATE ADMINISTRATOR FOR PROCUREMENT ASSISTANCE

U. S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES SENATE

MARCH 2, 1988

Mr. Chairman and members of the Committee. I would like to express my appreciation for the opportunity to appear at this hearing to review the U. S. Forest Service proposed changes in the small business timber sale set-aside program, and to respond to your specific inquiries concerning this program.

At the outset let me say that the views expressed in my testimony are those of the Small Business Administration and are not shared by the U. S. Forest Service which has proposed the procedures outlined in the Federal Register on September 25, 1987.

The timber sale set-aside program is a national program administered jointly by the SBA and the U. S. Forest Service. The essence of the timber program is embodied in the 1971 Interagency Agreement between the SBA and the Department of Agriculture. The role of the SBA is to monitor, coordinate, consult and assist the U. S. Forest Service with the operation of the timber sale set-aside program. The SBA's administrative burdens, in time or money, will not be affected significantly by the proposed policy changes.

The current set-aside program has its roots in the Small Business Act. SBA was directed to work with other agencies to insure that small business received its fair proportion of the total sales of Government property. The present program of establishing set-asides, stated simply, restricts selected timber sales to small business bidding, if needed, to insure small business the opportunity to obtain its historical fair share of timber sold.

The positive aspects of the set-aside program can best be described by the program's success in maintaining a viable and a competitive small business forest products industry. In FY 87, the U. S. Forest Service sold 3236 timber sales. The total sawtimber volume sold was 8.7 billion board feet. The total value of those sales was $1.1 billion. Of the total sawtimber volume sold 12.6% was purchased, as set-asides, by small business concerns. Over eighty seven per cent of the sawtimber volume was sold as open sales available to either small business or large business.

On November 21, 1984, the Forest Service published a proposed policy for the operation of the joint USFS/SBA timber sale set-aside program. Of the 140 written comments that were received, the majority came from small firms and from associations that represented small business interests. These comments strongly opposed many elements of the proposed policy, and at that time the SBA filed comments with the Chief of the Forest Service that reflected these concerns.

The final policy, published June 13, 1985, represented a number of substantial concessions from the rules that served small business so well over a period of 15 years. However reluctantly, the small business community accepted these changes and supported implementation of the Final Policy. With some reservation, SBA accepted the revised policy as a reasonable resolution and a compromise that addressed the concerns that had been expressed by both small and large business. At that point we were optimistic that the key issues had been resolved and that we could proceed with the operation of the program.

On September 25, 1987, the Department of Agiculture proposed further policy changes. The proposed changes would freeze small business shares at current levels and change the threshhold for identifying a structural change from ten per cent to five per cent. Our small business constituents in the forest products industry throughout the country have been meeting with us to express their concerns.

We have, on a number of occasions, indicated our concern about these additional changes being proposed by USDA. We believe it is appropriate to voice those concerns during this comment period and during the time the final Administration policy is being determined. This is consistent with our role as advocates for the small business community. Most recently the Small Business Administration registered its concern about the proposed rules for the timber sale set-aside program with the Department of Agriculture in written comments provided on December 22, 1987. Our concerns about the changes relate not only to the proposals themselves, but to the fact that the proposals appear to be premature. The proposals are anticipatory in nature, i.e., they propose to take actions in 1988 which are intended to preclude effects anticipated to take place in 1991 without the benefit of the actual industry data for the years 1988, 1989, and 1990.

Mr. Chairman we continue to be opposed to freezing the small business share. Share calculation is the key element in determining small business need for timber set-aside sales. Freezing small business shares would destroy the most basic and important principle which is the very cornerstone of the small business timber set-aside program.

We also believe that lowering the threshhold for determining structural change would be an invitation for additional problems. The small business share, or any part of it, should never be construed in any way as belonging to an individual firm or as an asset that can be sold, traded, or transferred.

The small business share cannot become a bargaining chip to be redeemed by an opportunistic firm to the detriment of small business as a whole. These proposed procedures would be adverse to the interests of small business and would be at odds with the program objectives that we and the Forest Service have mutually established. The proposed policy would mistakenly encourage structural change rather than reflect the appropriate needs of small business.

We recognize USDA's concern about what may or may not occur in 1991, however, we believe that it would be more appropriate to leave in place the current program which provides a mechanism for treating any unique circumstances that may arise in 1991. There may indeed be situations which would require adjustments in the share computation process as there were at the beginning of this 5-year period, however, these can be dealt with in 1991, if there is a demonstrated need.

The June 13, 1985 Final Policy represents acceptable, equitable public policy and assures the continuation and strengthening of our mutual efforts to maintain a strong and viable small business sector in the forest products industry.

We recognize the difficulty of making policy in this area which involves the needs of both large and small business operators. Nonetheless, as small business advocates, we believe that the current program works well and should be given the full implementation period anticipated ending in 1990.

In closing, I would like to emphasize that the SBA timber set-aside program has, in our opinion, been highly successful in serving the small business forest products industry.

This concludes my prepared statement. I will be pleased to answer any questions that are raised.

The **Chairman**. Thank you very much, Ms. Harrison.

Mr. Leonard.

STATEMENT OF GEORGE M. LEONARD, ASSOCIATE CHIEF, FOREST SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. **Leonard**. Thank you, Mr. Chairman.

I appreciate the opportunity to express the views of the Department of Agriculture on the Set-Aside Program.

As Ms. Harrison observed, the Set-Aside Program implements the policy of this Congress that the Government act to support and encourage small business firms, and it implements the specific requirement of that act that we assure that a fair proportion of our Forest Service sales be made to small business firms.

The program is fairly complex in its actual application on the ground but fairly simple in concept, and that is that we establish a fair share, a small business share for each National Forest, keep track of the purchases by small business, and if they are unsuccessful in purchasing their share in any 6-month period, we then set aside sales for preferential award to small business.

As you are aware, the program has been controversial. I think any program that attempts to allocate market shares is going to share that problem. Small business firms very strongly support the program. Large business firms generally object to it on the basis that it unfairly affects their access to National Forest timber.

In 1985, after a number of studies of the operations of the program and after extensive discussions with both small and large business, we proposed and then revised the program in substantial measure. Among the changes were the incorporation of purchase history along with harvest history as a basis for establishing the shares, a limit on the proportion of volume that could be set aside in any period, and upon the upper limit of the share, and some revision in the role of the Small Business Administration, both in setting shares and in the selection of set-aside sales.

At the time we adopted that policy in 1985, we believed that it addressed most of the problems that had been identified with the program.

Following adoption of the final program, we were sued by large business firms who argued that the substantive changes that were made between the proposed program in 1985 and the program that was finally adopted were such that they did not have an opportunity to legitimately comment on the final policy as adopted. In settlement of that lawsuit, the Forest Service agreed to solicit further comments on the final policy, and this was done in 1986.

As we were analyzing the comments that we received on the republication of the proposal, we also looked at operation of the program under the new rules that were established in 1985, and based on our observations of the first three 6-month periods, we determined that if the trends that were observed in that period continued there would be a very large increase in the small business share when the shares were recomputed as scheduled in 1990.

As we looked at and analyzed that data, it became apparent that in the Western United States there is a major restructuring of the timber industry going on, and we were concerned that reliance on the purchase and the harvest history during this period would not provide a good, reliable basis for establishing shares in 1990. So we proposed to freeze the shares, announce now that the shares would be frozen in 1990, and then review the operation of the program in 1990 and see what adjustments needed to be made to again ensure that the shares to be established represented a fair proportion of the program.

Last fall, because of your concern and other congressional concern, we agreed to delay a decision on the proposal until April 1, in order to permit both the House and the Senate to hold these hearings. We will be very interested in hearing the results of the hearings and in your views on the proposal following the hearing.

Mr. Chairman, the Department of Agriculture fully supports the purposes of the Small Business Act. We want the Set-Aside Program to operate efficiently and effectively to assure that small business firms have the opportunity to purchase a fair proportion of the National Forest timber. We think this can be done, and it can be done with equitable treatment to all purchasers of National Forest timber.

That concludes my statement, Mr. Chairman.

[The prepared statement of Mr. Leonard follows:]

STATEMENT OF
GEORGE M. LEONARD, ASSOCIATE CHIEF
FOREST SERVICE
UNITED STATES DEPARTMENT OF AGRICULTURE

Before the
Committee on Small Business
United States Senate

Concerning the Small Business Timber Set-Aside Program

March 2, 1988

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for this opportunity to present the views of the Department of Agriculture regarding proposed changes in the Small Business Timber Sale Set-aside Program of the Forest Service.

The Forest Service Small Business Timber Set-aside Program represents a response to the policy statement of the Small Business Act which provides for Governmental support and encouragement for small business firms. It implements the specific requirement of the Act that the Government ensure that a fair proportion of the sales of Government property be made to small business firms.

The current program was implemented in 1971 by agreement between the Small Business Administration and the Department of Agriculture. Although fairly complex in practice, the program is fairly simple in concept. Small business shares are established for each market area (generally a National Forest). A record of timber purchases by small business firms is maintained. If small business firms are unsuccessful in purchasing their established share of the volume of timber sold in a period, then sales are set-aside for preferential bidding by small business firms in subsequent periods to enable them to obtain their share without competition from large business. From its inception, the program has been jointly administered by the Forest Service and the Small Business Administration.

The program has been controversial as are most programs which allocate market shares. Small business firms strongly support the program. Large business firms generally object to the program on the basis that it unfairly limits their access to National Forest timber.

Early in this decade a number of studies of the set-aside program were highly critical of various aspects of its operation. A major study by the Forest Service identified the need to make some changes in the calculation of shares, the selection of set-asides and in adjusting the shares for structural changes in the industry. After long discussions with both large and small business firms and the formal publication of a proposal, a revised program was adopted in 1985.

The revised program incorporated actual harvest along with purchase history in establishing small business shares, established an 80% limit on the small business shares, limited the proportion of sales which could be set-aside in any period to 80%; revised the role of the Small Business Administration in the joint operation of the program, and established a process for adjusting shares as the result of structural changes in the industry. At the time the final policy was adopted, we believed that it addressed most of the problems which had been identified.

As a result of changes made in response to public comments, the final policy adopted in 1985 differed in substantive ways from the published proposal. Large business firms filed suit challenging the policy as adopted arguing that the differences between the draft and final were so great as to preclude meaningful comment on the policy as adopted. In settlement of that lawsuit, the Forest Service agreed to solicit further comment on the final policy. This was done in 1986.

As we analyzed the comments on the republished policy, we also looked at data on the first three 6-month periods of operation of the revised program. That data showed significant increases in small business purchases and harvest on many market areas. Projected to the end of the current five-year period, the data indicated the potential for a very significant increase in small business shares.

Our analysis indicated the increase in purchase and harvest levels was largely the result of the continuing restructuring of the industry in the West. Because of the trends we observed, we wondered whether reliance on purchase and harvest history during this period would provide a sound basis for establishing small business shares for the 1991-1995 period. We, therefore, proposed to freeze shares in the West at the current levels and provide for a review of the program at the end of the current period to determine what adjustments might be warranted.

Large business firms generally supported the proposal while urging even further adjustment in the operation of the program. Small firms opposed the freeze or any other adjustment in the program as adopted in 1985. They argued that the effects of the program revisions made in 1985 should be fully evaluated before further adjustments are considered.

Since the proposal was published, data for the fourth 6-month period of operation under the revised program has become available. The data are mixed. On some market areas the trend toward increasing purchases by small business continues. On other market areas the increase has moderated. On still others, there are reductions in the operations of small business.

Last fall, because of expressed Congressional concern about the proposed changes, we agreed to delay a decision on the proposal until April 1 to provide an opportunity for Congressional hearings. The information you receive as the result of this hearing will be useful to us. And we will certainly be interested in the views of this Committee following the hearing.

Mr. Chairman, the Department of Agriculture supports the purposes of the Small Business Act. We want the timber set-aside program to operate effectively to assure that small business firms have the opportunity to purchase a fair proportion of the sales of National Forest timber. We think we can do this and, at the same time, provide equity for firms of all sizes dependent on National Forest timber. That is our objective.

Mr. Chairman, that concludes my statement. I would be pleased to respond to any questions.

The **Chairman**. Thank you, Mr. Leonard and Ms. Harrison.

If you will just remain where you are, Senator DeConcini has joined us, and I would like to get his testimony, and then we will come back for questions.

You may remain where you are.

Senator DeConcini.

Senator **DeConcini**. Thank you.

The **Chairman**. In this Committee we start promptly, and we expect Senators to honor the time and be here when they are supposed to be here. [Laughter.]

Senator **DeConcini**. Mr. Chairman, I was at a function for Dan Inouye, and he may be the——

The **Chairman**. That cuts no ice with me.

Senator **DeConcini**. He may be the next Majority Leader, and I do not want to have my office out in Bethesda. [Laughter.]

STATEMENT OF HON. DENNIS DeCONCINI, A U.S. SENATOR FROM THE STATE OF ARIZONA

Senator **DeConcini**. I also want to thank you, Mr. Chairman, for the opportunity to appear before this Committee on the Small Business Timber Set-Aside Program. Because of the time restraints, and with the admonitions of the Chairman on being late on top of it, for which I apologize, I will keep my comments very brief.

As you will recall, Mr. Chairman, we entered into a colloquy last December when we were dealing with this issue on the Appropriations bill, and I agreed with you that we should take a little time to look at the Forest Service proposal to try and get a better understanding of what the changes will and will not do.

I was particularly concerned with the programs in the Southwest. The new regulations, as I understand them, will apply only to the West, not the South, nor the East, and that is good as far as it goes. This is a complex program, and the Forest Service has to look at the very real differences that exist in different regions. However, there are also a lot of different conditions in the different areas of the West. The Southwest is quite different from the Northwest, in both the amount of timber that is harvested and the number of mills involved.

In the Southwest we are dealing with millions of board feet, not billions. There are a number of small communities in Arizona and throughout the whole region that are very dependent on the local mill. Usually it is the only mill in town and the largest employer. When the mill is in trouble, the whole town is in trouble.

Later this afternoon, Mr. Chairman, and I am sorry I cannot stay to listen to his testimony, you will hear testimony from Jim Matson of Kaibab Industries. He is going to propose that the Forest Service, in managing the Set-Aside Program, take these different distinctions of towns into account when they do their management plans. The Forest Service can use its own list of dependent communities or go by the mill, or use a combination of both.

Mr. Chairman, a regional program makes sense to me. I think we should ask the Forest Service to try it on an experimental basis and maybe for a couple of years, and they can conclude whether it makes sense. If it works, the Forest Service can formalize it. If not, then they should try something else.

In creating the trial program, the Forest Service should work closely with the affected communities and the companies, especially in light of the changes in the regulations, and come up with the most effective Set-Aside Program which they can do.

The Forest Service has to deal with this program in a manner which recognizes regional concerns. One set-aside regulation will not fit the whole country or even half the country.

Thank you again, Mr. Chairman, for taking my views into consideration and letting me indulge on the time and the expert panels that you have here. I appreciate it very much.

The CHAIRMAN. Senator DeConcini, while you are still seated here, let me ask Mr. Leonard, because you have raised an interesting point, the Small Business Set-Aside Program right now does not take into consideration any dependency of any community, does it?

Mr. LEONARD. No, sir, it does not.

The CHAIRMAN. What do you think about that point, because while the current proposal does not impact my State, Alabama, like Senator DeConcini's State, we are like Senator DeConcini, we have a number of communities where there are one or two mills. They are usually the biggest employer in town, and they are small business, and if they do not get their fair share of Natural Forest Timber, they really wind up in some difficulty.

What do you think about the proposal or the suggestion that Senator DeConcini has made, and apparently Mr. Matson is going to make later in the hearing, about regionalizing the Set-Aside Program? And first in that regard, does the Forest Service keep a list of communities that could fairly be considered to be dependent economically on the National Forest?

Mr. LEONARD. Yes, sir, we have identified communities that are resource dependent and where a large share of that resource comes off the National Forest.

The CHAIRMAN. Then do you also, within that list of the communities that are resource-dependent, do you differentiate between the large and the small businesses in a particular community?

Mr. LEONARD. In the kinds of uses that we have made of the dependent community identification, we have not distinguished between large and small business. We know which of the mills, how they fit in that structure, but we have not used that in terms of the administration of the small business program, per se.

The CHAIRMAN. So if you had Weyerhaeuser and you have got a town of 5,000, and you had a Weyerhaeuser there that employed 1,000, and then you have got old Joe Blow that employs 25, your list does not differentiate between those two. That community is considered dependent.

Mr. LEONARD. We would know that the community is dependent on National Forest timber, and it may very well be that in a situation such as a Weyerhaeuser and Joe Blow, the Joe Blow gets all his supply off the National Forest and Weyerhaeuser gets all theirs off Weyerhaeuser's own land.

One of the things that we changed in 1985—prior to 1985 when we revised the program, we had one standard program that applied across the country. In 1985 we did some regionalization. We split out the two Eastern regions and treated them differently than the Western regions, and actually, the recomputation that we did, between 1985 and 1986, we actually treated the west coast differently than the Rocky Mountain area because of the different reliance on National Forest timber and alternative supplies and what not.

We think that regionalization has the potential for strengthening the program. I had talked to Jim Matson about the proposal. I have not really evaluated it specifically in depth, but we would be pleased to do that. Frankly, we can do that within the structure of the program as it currently exists.

The CHAIRMAN. Mr. Leonard, you heard Ms. Harrison's testimony that in 1987, and I am sure you heard this, Mr. Leonard, total volume on 3,236 timber sales was 8.7 billion board feet.

Mr. LEONARD. Yes, sir.

The CHAIRMAN. And of that amount, 12.6 percent was purchased as set-asides.

Can you tell me how much of that—well, the other 87 percent, you point out here, was open to either large or small business, is that correct?

Ms. Harrison, maybe the question should go to you. If a larger share of that were set aside for small businesses only, would the 12.6 percent have been increased?

Ms. HARRISON. Yes.

The CHAIRMAN. The 12.6 percent was bought by small business under set-aside.

Ms. HARRISON. On set-asides.

The CHAIRMAN. And your point here is that if more of it had been put on small business set-aside, that volume would have been much greater, is that correct?

Ms. HARRISON. Right. The point that we are making is that if there is a concern about big business not having this market available to them, this statistic should alleviate concerns about that because only a small portion of the total volume goes to small business on small business set-aside.

Now, it is true that small business also is competitive enough to take a significant amount of the unrestricted, open sales, but we assume no one has a problem with that kind of competition.

The CHAIRMAN. Do you have any idea how much of that 87 percent was actually bought by small business?

Ms. HARRISON. Yes, if I can read my chart here, I can figure it out.

The total volume to small business was 5.4 billion feet of the 8.6 billion. That is just the Forest Service. If you add in BLM and others, it is 800 and—6.2 billion.

The CHAIRMAN. Wait a minute. You said 800. You mean 8 point something billion, didn't you?

Ms. HARRISON. It was 826 million in the BLM, but adding it in to the Forest Service, you have a total of 9.9 billion board feet, and of that, 6.2 billion went to small business.

Mr. LEONARD. Small business buys about 60 percent of the volume in the last 5-year period.

The CHAIRMAN. I want to be sure that the record is clear on this now; 9.9 billion, was that the total volume by both the Forest Service and BLM?

Ms. HARRISON. Yes.

The CHAIRMAN. That 6.2 billion you say that small business got, does that include this 12.6 percent?

Ms. HARRISON. Yes.

The CHAIRMAN. So that does represent maybe a little over 60 percent of the total sales.

Ms. HARRISON. That is correct.

Mr. LEONARD. Yes, that is right.

The way the program is designed, hopefully most of the sales are sold as open so that the Forest Service and the Small Business Administration do not decide that this sale goes to small business when it better fits to a large business mill.

If things are working right, we will interject set-aside sales very infrequently into the system. The use of set-asides is only to correct an imbalance in purchases, not as a routine matter. We have had some market areas where we have never had set-aside sales. On the other hand, we have some market areas where we have set-aside sales almost on a continuing basis because of the relative competition.

But our objective is to interject the Government into the business of allocating the sales as infrequently as possible.

The CHAIRMAN. Ms. Harrison, what kind of proof do we have that if say 50 percent of this volume had been set aside as small business, that these figures would have been any different. I mean, do we have proof, in short, that big business on that 87.5 percent that was open to both small and big business, what proof do we have that small business is being squeezed out as a result of that?

Ms. HARRISON. I think I would turn that around. It is not our assertion that small business is being squeezed out. It is large business's assertion from time to time that they are being squeezed out, and we are saying that this program has a mechanism for everyone, if you will. You have open sales for big businesses to bid, and in those instances where there is not an opportunity for small business to—I want to keep using the word procure—to receive its fair share of what it has historically been able to buy, then you have this set-aside trigger.

So we are not saying that small business is being squeezed out. We are saying that there is, in those instances where it is, in those few market areas where it is, where the historical pattern tells you what the historical share should be, that the trigger should be put in place.

We, like the Forest Service, are not concerned when small business sales are not triggered, if there is ample opportunity for the small businesses to bid. We think that the statistics on open sales show that small businesses are competitive, and ultimately the Government gets a good price for its timber, and that ultimately it works to the advantage of everyone involved.

The CHAIRMAN. Ideally, in the best possible world for small business, what percentage of the total volume would small business have as a set-aside compared to 12.6 percent, which is what they got last year?

Ms. HARRISON. No one has ever come to me and said small business should receive 25 or 40 or 60 percent. Again, that will go back to the Senator's comment about individual communities, and individual markets and individual regions. In some communities, the small businesses there may say gee, we would be happy if we could just get 50 percent. In some places where they are getting all that they can process, they may be perfectly happy with the 10 percent they are currently getting.

So I could not say there is any ideal amount for small business generically. It will vary community to community.

The CHAIRMAN. Mr. Leonard, why did the Forest Service decide to freeze small business shares based on 1½ years of data rather than the full 5 years?

Mr. LEONARD. The concern is that people are going to make business decisions or have to make business decisions over the next 2 or 3 years to make plant investments or not to make plant investments, and the availability of timber is a key element in those kinds of decisions.

The CHAIRMAN. But is that not always the way?

Mr. LEONARD. That is true, but if it looks to us as though we may need to change the rules 3 years from now, we think the people make better decisions if they can anticipate those rather than purchasers upgrading a mill on the assumption that the share will be recomputed and raised and give them protection, and then 3 years from now we decide that, well, we need to change the rules, and therefore, the judgment that you made was not a good one based on that.

So we are trying to remove a level of uncertainty about what the Government is going to do in the administration of the program.

The CHAIRMAN. Well, you said on page 4 of your testimony, though, that the data on small business purchases that you have done so far are mixed.

Does that mean that your original trend analysis and the conclusions you reach are flawed?

Mr. LEONARD. Well, it certainly says that the data is not as strong as we thought it was indicating at the end of the three periods, yes, sir.

The CHAIRMAN. Is that one of the reasons you extended the comment period, as well as my request?

Mr. LEONARD. Yes.

The CHAIRMAN. Are there any other options that you can think of, Mr. Leonard, that would be available to the Forest Service to address these problems, what you see as problems?

Mr. LEONARD. Well, certainly the option of simply waiting until we see the results of the 5 years and making judgment as to how the program should be operated in the future at that point is one alternative that we are looking at. Another would be to put some limits on the amount of change that could take place in any adjustment period.

The CHAIRMAN. Well, let me just say that, you know, I am not closed-minded about all of this. This is one of those cases where I just did not think the system was broke and didn't need fixing, and that is not to say that I would not be amenable to some other procedure and method if it were fair to small business, but it seems to me that what the Forest Service has done is simply said we are just going to arbitrarily do a 1½-year study on this thing, and we are going to change the rules, and we hope small business comes out OK, but if they do not, it is just tough.

I can tell you right now that the Congress will not accept that sort of a premise.

So I would suggest that when the comment period closes—and I assume that most people who want to comment have had an opportunity—I hope you and Chief Robertson will confer with me before you reach any conclusions about these proposed regulations. I do not want to have a fight about this in the Senate if it is not necessary.

Mr. **Leonard**. We will certainly commit ourselves to do that, sir.

The **Chairman**. Senator DeConcini, do you want to add anything?

Senator **DeConcini**. No, thank you, Mr. Chairman.

I appreciate the time that you are giving to this subject matter. It is very important in my State and my region, and it is very helpful to see the commitment of the Forest Service to work with the Chairman.

The **Chairman**. Thank you very much, Ms. Harrison and Mr. Leonard.

Mr. **Leonard**. Thank you, Mr. Chairman.

The **Chairman**. Our second panel this afternoon will be Mr. Charles Thomas, president of the Shuqualak Lumber Co., is that right, and Mr. Dennis Hayward, executive vice president, North West Timber Association, Eugene, OR, and Mr. Joe Miller, legislative representative, Western Forest Industries Association, and whose reputation spreads far and wide.

Gentlemen, Mr. Thomas, would you please proceed?

STATEMENT OF CHARLES THOMAS, PRESIDENT, SHUQUALAK LUMBER CO., INC., SHUQUALAK, MI

Mr. **Thomas**. Yes, sir, Mr. Chairman. I will summarize if that is all right, sir.

The **Chairman**. It certainly will be all right.

Mr. **Thomas**. I am a small businessman in Shuqualak, MI. We have been there since 1952. We employ about 130 people. We are dependent upon U.S. Forest Service timber for about 30 percent of the timber that we purchase.

In 1985 I participated in the debates between large and small business as to how we should change the Set-Aside Program. The one thing, or two or three things I think we really came to a firm conclusion in those debates was, number one, that there are regional differences in this United States.

Mr. George Leonard, and I do not want to speak for him, but I think I am doing so, recognized the fact that in the South we are different than they are in the West or in the Northwest or wherever. So when we agreed upon changes to be made by both large and small business, we agreed on a program for Region 8, or the South, and it was published in the Federal Register, and we have not deviated from it, and the program works, sir.

Prior to coming here, trying to prepare, I contacted large business and small business in Mississippi. The question I asked was do you have any real changes you would like to see implemented in the Set-Aside Program? The answer was no, n-o. We do not need any changes.

Now, what I see is the U.S. Forest Service—well for instance, in Region 8, I belong to Southeastern Lumber Manufacturers Association, which is a group of 380 small businessmen. What we have found is that in our region we have had some areas that the small business shares increase, some areas where it has decreased, and some areas where it has stayed the same, and I think that is the way the program is supposed to work, sir. It is based on need.

I think what the Forest Service has done is taken a three 6-month study and come up with a perception that small business is going to buy all the timber. Then they go to the 4th month study and they get an entirely different projection. What they are trying to do is evaluate too quickly, I believe, Mr. Chairman.

I believe in this 1985 agreement. We all agreed at that time that in 1991 or 1990 would be the time that we would look at this thing again. And I do not think you can look at it until you have had time to see how the program works.

Our main reason for testifying here, sir, is that the proposed changes do not affect the South, but every single time I have seen a change come in, that sucker will bleed right over into the South, and we do not want it there, sir. The program works. Everybody—well, everybody is not ever happy, but the majority of the timber purchasers in the South are happy with the way the program works.

I just do not think that we ought to make premature changes. Wait until 1990 or 1991, evaluate the program, do not do any more studies just to be doing a study. I mean, we do this. We do a study just to do a study when we do not need a study.

Let's wait until we have had time to gather the data, analyze the data, and see if there a change made.

And I thank you, sir.

[The prepared statement of Mr. Thomas follows:]

TESTIMONY ON THE PROPOSED CHANGES TO THE SMALL BUSINESS TIMBER SET-ASIDE PROGRAM BEFORE THE SENATE SMALL BUSINESS COMMITTEE

MARCH 2, 1988

GOOD AFTERNOON, MY NAME IS CHARLES THOMAS, PRESIDENT, SHUQUALAK LUMBER COMPANY, SHUQUALAK, MISSISSIPPI. I AM A PAST PRESIDENT OF THE SOUTHEASTERN LUMBER MANUFACTURERS ASSOCIATION (SLMA), AND I HAVE ALSO SERVED AS CHAIRMAN OF SLMA'S FORESTRY AND ENVIRONMENTAL AFFAIRS COMMITTEE. I APPRECIATE THIS OPPORTUNITY TO TESTIFY ON BEHALF OF THE SLMA MEMBERSHIP ON THE PROPOSED CHANGES TO THE SMALL BUSINESS TIMBER SET-ASIDE PROGRAM.

SLMA REPRESENTS APPROXIMATELY 380 SMALL BUSINESS LUMBER MANUFACTURERS IN 13 SOUTHERN STATES WHO COLLECTIVELY PRODUCE IN EXCESS OF 3.5 BILLION BOARD FEET OF SOUTHERN YELLOW PINE AND HARDWOOD LUMBER ANNUALLY. APPROXIMATELY 80 OF OUR MEMBERS PURCHASE FOREST SERVICE TIMBER AND MANY OF THESE MEMBERS ARE DEPENDENT UPON FOREST SERVICE TIMBER FOR THEIR RAW MATERIAL. THE SET-ASIDE PROGRAM IS OF CRITICAL IMPORTANCE TO THESE MEMBERS, AND WITHOUT THE PROGRAM, SOME OF THEM WOULD MOST LIKELY NOT BE IN EXISTENCE TODAY.

AS A SMALL BUSINESSMAN, WHOSE FAMILY-OWNED SAWMILL IS DEPENDENT UPON FOREST SERVICE TIMBER, THE SET-ASIDE PROGRAM IS OF VITAL INTEREST TO ME. SHUQUALAK LUMBER COMPANY WAS ESTABLISHED IN 1952, AND CURRENTLY EMPLOYS 130 PEOPLE. OUR COMPANY HAS PURCHASED FOREST SERVICE TIMBER FOR THE PAST 14 YEARS, AND TODAY FOREST SERVICE TIMBER ACCOUNTS FOR UP TO 30% OF OUR TOTAL TIMBER SUPPLY.

THE PRESENT SMALL BUSINESS TIMBER SET-ASIDE PROGRAM WAS DEVELOPED IN 1970 TO "INSURE THAT SMALL BUSINESS TIMBER PURCHASERS HAVE THE OPPORTUNITY TO PURCHASE A FAIR PROPORTION OF THE SALES OF NATIONAL FOREST TIMBER." WE BELIEVE THE SET-ASIDE PROGRAM HAS WORKED VERY WELL IN THE SOUTH, AND THE PROGRAM IS PRESENTLY OPERATING IN A FAIR AND EQUITABLE MANNER. IN FACT, A STUDY OF EXHIBIT A SHOWS THAT SINCE THE PROGRAM WAS IMPLEMENTED IN 1971, THE SMALL BUSINESS SHARE HAS DECREASED IN 29 OF THE 32 MARKET AREAS IN REGION 8, WHICH INDICATES THAT ADJUSTMENTS HAVE BEEN MADE TO CORRECT ANY INEQUITIES IN THE REGION 8 PROGRAM. OF COURSE, THE MAJORITY OF THE DECREASES ARE A RESULT OF THE 80% CAP PLACED ON THE SMALL BUSINESS SHARE IN 1985, WHICH WAS A SUBSTANTIAL CONCESSION TO LARGE BUSINESS BY THE SMALL BUSINESS INDUSTRY. EXHIBIT B REVEALS THE CURRENT STATUS OF THE PROGRAM IN REGION 8, AND ALSO SHOWS WHAT THE SMALL BUSINESS SHARE WOULD BE IF IT HAD BEEN RECALCULATED AT THE END OF THE FIRST TWO YEARS OF THE CURRENT PERIOD. EIGHT MARKET AREAS SHOW INCREASES, AND EIGHT MARKET AREAS SHOW DECREASES, AND THE REMAINING 16 MARKET AREAS WOULD REMAIN AT THE CURRENT LEVEL. I BELIEVE THIS ANALYSIS INDICATES THAT THE PROGRAM IS OPERATING WELL IN THE SOUTH.

ALTHOUGH THE PROPOSED CHANGES WILL NOT AFFECT THE SOUTH INITIALLY, SLMA OPPOSES THE PROPOSED CHANGES. WE HAVE STATED OUR OPPOSITION TO THE PROPOSAL IN A LETTER TO DALE ROBERTSON, CHIEF, USDA FOREST SERVICE, DATED DECEMBER 21, 1987 (SEE EXHIBIT C). WE BELIEVE THE PROPOSED REGULATIONS ADDRESS WHAT APPEAR TO BE REAL OR ILLUSORY PROBLEMS IN THE NORTHWEST; HOWEVER, WE OPPOSE THE REGULATIONS BECAUSE WE BELIEVE THAT THE IMPLEMENTATION OF ANY OF THE PROPOSED CHANGES WILL WEAKEN THE ENTIRE program. Also, we believe the proposed regulations are not necessarily good policy. Regarding the proposal to freeze the small business shares at the current levels, we believe the government has failed to demonstrate why a freeze in shares is needed. If there are problems with the program in certain areas, we believe that freezing the shares may not be the only solution. The Forest Service should perhaps investigate the problem areas more thoroughly, and consider other alternatives to solving any perceived problems.

We are aware that the lobby against the Set-Aside Program from large business has been very intense, and it is apparent that large business will continue to attack the program until it is completely dismantled. As we have stated on numerous occassions, the Set-Aside Program is working well in the South, but our purchasers are extremely concerned with the possibility of radical changes in the West eventually showing up in the South. We believe that once large business has accomplished what it seeks in the West, that it will be looking to the South to generate problems.

In closing, we respectfully remind members of the Sub-Committee that the timber Set-Aside Program is a dynamic program and responds well to market factors. In Region 8, we have lost shares in some market areas and gained shares in others, and each of these changes was the result of factors in the individual market areas. We believe that if a problem exists in certain areas, then the problem should be corrected in those particular market areas. The program does not need nor do we support any wholesale changes.

We ask the members of the Sub-Committee to consider the long-term consequences of the proposed changes, and to allow the program in the South to continue to operate as is. Thank you for this opportunity to testify on this most important issue.

Exhibit A

CHANGES IN SBA
SHARES OVER TIME - REGION 8

FOREST-MARKET AREA	1971-75	1976-80	1981-85	1986-90	OVERALL CHANGE
Alabama:					
North	94	83	75	80	-14
South	99	89	79	80	-19
Chatt-Oconee:					
Chatt	100	99	99	80	-20
Oconee	84	74	74	67	-17
Cherokee:					
North	99	93	94	80	-19
South	99	100	94	80	-19
Daniel Boone:					
North	100	100	100	80	-20
South	100	99	99	80	-20
Florida	87	85	76	76	-11
Fran. Mar. & Sumter:					
A. Pickens	100	100	100	80	-20
Enoree-Tyger	69	51	42	42	-27
Edgefield-LC	93	89	87	73	-20
Fran. Marion	52	52	39	37	-15
G. Washington	91	90	95	80	-11
Jefferson	90	94	97	80	-10
Kisatchie	52	49	48	49	-03
Mississippi:					
Bienville	79	74	69	76	-03
Delta	75	70	89	80	+05
DeSoto	67	58	56	59	-08
Holly Spgs	86	93	88	80	-06
Homochitto	74	77	73	73	-01
Tombigbee	74	88	78	80	+06
North Carolina:					
Croatan	100	87	72	80	-20
Uwharrie	100	100	100	80	-20
Nantahala	100	100	100	80	-20
Pisgah	100	98	100	80	-20
Quachita	77	62	60	59	-18
Ozark-St. Francis:					
Ozark	94	74	47	47	-47
St. Francis	85	100	100	80	-05
Texas:					
East Side	53	53	51	53	00
D. Crockett	49	46	47	53	+04
Sam Houston	88	71	71	71	-17

Exhibit B

REGION 8 SBA SHARES
IF RECALCULATED IN 1987

FOREST-MARKET AREA	CURRENT BASE SHARE	% PURCHASED BY SB AS OF 9/30/87	NEW SB SHARE IF RECALCULATED (% CHANGE)
Alabama			
North	80	92	80
South	80	85	80
Chatt-Oconee			
Chatt.	80	100	80
Oconee	67	73	73 (+6)
Cherokee			
North	80	100	80
South	80	100	80
Daniel Boone			
North	80	100	80
South	80	100	80
Florida	76	75	75 (-1)
Francis Marion & Sumter			
A. Picken	80	100	80
Enoree-Tyger	42	47	47 (+5)
Edgefield-Long Cane	80	75	75 (-5)
Francis Marion	37	46	46 (+9)
G. Washington	80	94	80
Jefferson	80	94	80
Kisatchie	49	44	44 (-5)
Mississippi			
Bienville	76	80	80 (+4)
Delta	80	100	80
DeSoto	59	46	46 (-13)
Holly Springs	80	99	80
Homochitto	73	61	61 (-12)
Tombigbee	80	76	76 (-4)
N. Carolina			
Croatan	80	60	60 (-20)
Uwharrie	80	100	80
Nantahala	80	87	80
Pisgah	80	99	80
Quachita	59	60	60 (+1)
Ozark-St. Francis			
Ozark	47	66	66 (+19)
St. Francis	80	100	80
Texas			
East Side	53	42	42 (-11)
Davy Crockett	53	55	55 (+2)
Sam Houston	71	79	79 (+8)
	64	79	

Exhibit C

SOUTHEASTERN LUMBER MANUFACTURERS ASSOCIATION

P.O. BOX 1788
FOREST PARK, GEORGIA 30051
TELEPHONE: 404/361-1445

December 21, 1987

Mr. F. Dale Robertson, Chief
USDA Forest Service
P. O. Box 96090
Washington, D. C. 20013-6090

Dear Mr. Robertson:

I am writing in response to your request for comments on the notice of proposed policy on the Small Business Timber Set-Aside Program in the September 25, 1987 Federal Register. SLMA represents 375 small business lumber manufacturers in 13 southern states. Approximately 80 of our members purchase Forest Service timber, and the Set-Aside Program is of critical importance to these 80 members.

SLMA strongly opposes the proposed changes set forth in the Forest Service's proposed policy, and we believe that implementation of any of the proposed changes will spell eventual doom for the program. Of course, it appears that this is indeed the goal of large business, and that rather than seeking a fair and equitable set-aside program, they will not rest until the program is completely dismantled.

During the 1985 revision, several significant changes were made in the program, most of which were concessions by small business. After months of negotiation, large business and small business finally came to an agreement, which resulted in the revised program. It is difficult to conceive that the Forest Service would consider another major revision of the program only 18 months after implementation of the 1985 program.

The set-aside program in Region 8 is operating very well according to the new regulations issued in 1985, and we believe the program should be given at least a five-year period to operate before any further changes are considered. We realize that most of the proposed changes will not affect Region 8 initially, but any changes will weaken the program, and the effects will most likely eventually show up in Region 8.

SLMA has a number of member mills who are very dependent upon Forest Service timber for their raw material supply, and these members are becoming more and more concerned about their future supplies of the Forest Service timber. In many cases, these small mills are the Forest Service's best customers, because they are committed to purchasing Forest Service timber for the long term. Large business is known to go in and out of the public timber market rather sporadically, and freezing the shares will only insure large business a risk-free opportunity to enter the public timber at will.

Mr. F. Dale Robertson
December 21, 1987
Page Two...

I hope that you, your staff, and Mr. Dunlop will consider the potential consequences that the changes you have proposed in the set-aside program will have on the small business timber industry. We thank you for the opportunity to comment on the set-aside proposal.

Sincerely,

Chris Barneycastle
Director of Forest Resources

DCB/alc
cc: Mr. George Dunlop
Mr. Tom Cator
bcc: Forestry & Environmental Affairs Committee

The CHAIRMAN. Thank you very much, Mr. Thomas.

Mr. THOMAS. Mr. Chairman, could I say one other thing, sir?

The CHAIRMAN. Certainly.

Mr. THOMAS. I listened to you and Monika and George talking, and I wanted to make one statement if I could because you were talking about what if small business had 40 percent, 30 percent. Small business earns its shares by purchasing, Mr. Chairman. Small business is not given shares. When they purchase, they establish the fact that they need the timber, they have purchased the timber, they have used the timber, and so their share reflects that. So a share is earned by purchasing, not like some Federal programs where 10 percent has to go to a minority or something; this is an earned share.

Thank you, sir.

The CHAIRMAN. It is indeed, Mr. Thomas, and your point is well taken.

Mr. Hayward.

STATEMENT OF R. DENNIS HAYWARD, EXECUTIVE VICE PRESIDENT, NORTH WEST TIMBER ASSOCIATION, EUGENE, OR

Mr. HAYWARD. Thank you, Senator Bumpers.

I am Dennis Hayward, executive vice president of North West Timber Association. I have submitted possibly too lengthy of a formal document, and I will summarize what I see——

The CHAIRMAN. If it will help your feelings any, I have read your statement.

Mr. HAYWARD. I will summarize what I see are the key issues in this discussion.

We do very much appreciate you for holding this hearing, and for your efforts to assure fairness in the manner. Our organization believes that this program must operate in a fair and equitable manner, and for this reason, we have supported and accepted the program as it was modified in 1985. Conversely, for the same reason, we totally object to the proposals for further changes that have come forth from the administration.

I would comment, too, earlier you were discussing community stability, and I would assure you that the small business and the large businesses in western Oregon and in the Northwest are all concerned about their communities and community stability, and we all are common in our goals regarding timber supply. The small business program talks about percentages, but it is the amount of volume, and if you do not have the volume, you cannot operate the saw mills, no matter whether they are small, large or otherwise.

This SBA Program is no subsidy. I think that point needs to be made. Nor is it costing the Federal Government money in terms of timber receipts. As I have detailed in my statement, there is insignificant difference between the prices paid for timber by large or small business. In fact, the most expensive timber are the set-aside sales, which, of course, as you know, only make up about 12 percent of the volume. It should also be noted that sales purchased by large business tend to be more than twice as large as those purchased by small business, and sale size is a characteristic which generally draws a premium at the bid table.

The review procedure was a fair one. The process that led up to the revised rules was extensive and fair. It involved discussion by all parties, full public input, and incorporated significant compromise. Small business accepted major changes which George Leonard outlined this morning, including a cap on the share, limits on the volume of set-aside, and very importantly, special provisions to recognize unique circumstances in 1985 which resulted in our area the shares being frozen at the 1980 levels, which were generally lower.

So we actually lowered the shares from the indicated amount. And it was also agreed that the future shares would be computed based on purchase and harvest by small business. So small business had to be responsible. You could not just purchase the volume; you have to harvest it, and we think that is very important.

These were significant changes. Now, less than 2 years into the program, the administration is proposing major changes reflecting those items which large business wanted but did not get in the 1985 review, most importantly, to freeze the shares. We would say that if there are going to be any changes to the bast of this program, that we think all the compromises that were made in 1985 should again be put on the table for discussion.

The administration is claiming that the changes are needed because in some market areas small business is purchasing and harvesting a greater percent of timber. This is not a result of the small business program. Remember, set-asides occur only in those situations where small business fails to purchase its shares based on past performance. Small business can increase its purchases only when it does so in completely open and free competition with large business. Where small business has increased its purchase and harvest activity, it has resulted because of the entry of new small business and/or because large business chose not to be competitive.

In last week's hearings we heard large business claim it could not be competitive on Forest Service timber because it had to harvest its private timber to offset the cost of expensive timber left after the buyout program in 1984. Well, we recognize that program was somewhat more favorable to smaller timber holders, but the program did limit buyout to 55 percent of the qualifying volume, meaning that all participants, small or large, had to operate a minimum of 45 percent of the high cost timber that remained.

The overall burden was shared quite equally between large and small. In Regions 5 and 6, which is the west coast, following buyout, large business had 3.3 billion feet left under contract to the old sales, small business had 3.3 billion. We have operated our sales and have to operate them without the benefit of private stumpage, and most large businesses are also operating the volume under the extension program and continuing to buy new Forest Service volume.

When the rules went into effect in 1986, everyone knew that the future SBA shares would be based on how much timber small business purchased and harvested. Large business knew that if they did not compete for timber, that small business would have the opportunity to expand in an area.

The current administration proposal is designed to protect large business from having to compete, a somewhat ironic twist.

The scheduled recomputations must be maintained. The SBA Timber Program, as set out in the current regs, is a unique one. Unlike many programs which artificially allocate a given percent of the Government timber exclusively for small business, this program allows totally open and free competition unless the need for set-asides is demonstrated.

Remember, nationally 88 percent of the timber sold is open. The Government is well served by the provision that the small business community must perform on its sales in a responsible manner or pay the cost in reduced small business share. The entire system is hinged on the concept that every 5 years the small business share in each market area will be recomputed. The harvest requirement protects large business from unrealistic ratcheting of the shares through excess purchases. At the same time, the recomputation process assures the small business community that if in open and free competition it demonstrates an increased fair proportion, it will be established.

As has clearly been demonstrated by the more realistic large business concerns, remaining competitive is the only expense of preventing small business growth. The 1991 scheduled recomputation is a key to resolving this issue in our mind. No set of rules governing a program such as the SBA program can cover all situations or all regions. Enough flexibility must be maintained so that the decisionmaker can recognize and make needed adjustments. This flexibility exists in the current regulations by recognizing that "unique situations may develop which require special recomputations and departure from established procedures."

We support this language and believe it will provide the opportunity for departing from standard procedures in 1990 where they are justified. In market areas where there are significant changes in the recalculated shares, the Forest Service and the SBA have the opportunity to examine the situation closely and make adjustments where appropriate.

We greatly appreciate this opportunity and the interest of this Committee as well as other Members of Congress who have shown concern, and we would urge and encourage, and I think it is most logical for the Forest Service and the Department of Agriculture to leave the regulations as they were published in June 1985 and be prepared in 1991, as we go through the recomputation process, to look at each market area, and where there are major swings, to find out why and determine if the program was not operating, or if it was operating and that was the just result.

[The prepared statement of Mr. Hayward follows:]

NORTH WEST TIMBER ASSOCIATION
1355 OAK STREET • P.O. BOX 5554 • EUGENE, OREGON 97405
TELEPHONE: (503) 686-9603

TESTIMONY OF

R. DENNIS HAYWARD

before the

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

Regarding
The Operation of and Proposed Changes to
the Small Business Timber Set-Aside Program
of the U.S. Forest Service.

March 2, 1988

My name is Dennis Hayward. I am Executive Vice President of North West Timber Association headquartered in Eugene, Oregon. Our Association consists of small family owned and operated lumber and plywood mills in western Oregon. Our members are almost totally dependant upon the raw material purchased from the Federal government, which controls over 50% of the forest land and 70% of the timber supply in Oregon, the number one timber-producing state in the nation. Unlike many of our large business friends, our members own little private timber land, and were created, and will survive or fail depending upon the public timber resource.

OVERVIEW OF THE SBA ISSUE

As Mr. Dunlop learned from dozens of small business operators when he visited our state last fall, the existence and survival of a small business timber industry is dependant upon the continued existence of a fair and equitable SBA program. We are an efficient, modern, and competitive element of the industry, dedicated to our employees and communities, and able to survive processing the very expensive public timber through hard work, innovation, increased investment, and hands-on-management of our operations. As a result of the combination of decreasing inventories of private timber, increasing log exports from private and state lands, and more of the public lands being dedicated to non-timber uses, the pressures on raw material have escalated dramatically. Capacity of our industry will adjust in response to changing supply through free competition - the most efficient will survive, while the weak will fall by the way. We can deal with this environment so long as we are protected from the sheer financial magnitude of the giant corporations - the purpose of the SBA timber program.

We seek no subsidies or handouts from Uncle Sam. Indeed we only seek the opportunity to compete in a fair and open market where the results are based on our ability to pay fair values for the timber and convert the resource to a product in the most efficient manner - not how deep the corporate sock may be. **The current structure of the SBA timber program assures all parties, small and large, that opportunity.** The unique operation of the program assures the goal of free competition by providing that set-asides are made only when it is demonstrated small business has not received its fair portion of the resource.

As a result, while small business purchases nearly two-thirds of the Forest Service timber nationally, only eleven percent of the volume has been sold as set-aside over the last six years nationally. Recalculated each five years, this fair proportion, as represented by the Small Business Share in each market area, is based upon the performance of small business in terms of both its purchases and harvest of public timber. In order for the share to increase in any area, the small business community must, in free and open competition, purchase more than its historical share and it must also harvest the volumes. Failure to meet either criteria, purchase or harvest, will result in decreased share. On the other side of the ledger, large business need only maintain its competitive position in a market area, in terms of purchases, in order to prevent growth in the small business share.

GROWTH IN SMALL BUSINESS SHARE

The indications of significant growth in shares in some market areas, the factor that has motivated the proposed changes and the discussion today, resulted from decisions on both sides of the ledger. "It takes two to tango" in our business just like any other. Where SBA shares are showing significant growth, it has been the result of large business decisions to not remain competitive, and the willingness of small business to take the risks and make the investments. It has not been the result of any inequality in the operation of the SBA program.

The drastic recession of the early eighties saw major changes in our industry in western Oregon. Some large corporations moved to their less expensive fee timber, or, having completed liquidation of the mature stands, simply closed their plants. During that period dozens of plants were idle and thousands of people unemployed. In the recovery that followed, new people entered the industry, many of them small entrepreneurs, purchasing and opening plants abandoned by large business, or modernizing their existing facilities to remain competitive. As a result, communities and their families have survived. In the areas where small business has picked up the slack, the decisions to invest were made based upon the assurance that the protection of the Small Business Program would remain intact - this rug must not be pulled out from beneath us.

PROGRAM REVISION WAS FAIR

Because of the critical importance of this program to the survival of the small business community, it is essential that it operates in a fair and equitable manner. Our organization recognized that when inequalities exist, they threaten the program. It was with this spirit that we participated in the review of the program which lead to the revised rules issued in 1985. In the long and difficult review process, we proposed major changes and supported significant compromises to address large business concerns. While we drew the line on proposals which would destroy the program, we went the extra mile, in our view, to produce a set of rules which increased the responsibility of small business, satisfied the Forest Services concerns, and was equitable to large business. Now less than two years after the new rules were put in place, we are being asked to compromise again. Lacking any demonstrated need for change, we see no need for further compromise.

The proposed policy changes should be cancelled and the SBA timber program should be allowed to continue to operate under the rules as revised in 1985 and currently in effect. The Forest Service agreement in resolving the lawsuit with the Public Timber Purchaser Group required only additional review and does not require any changes to be made. Lacking justification, no changes should be made. The rules for recomputing small business shares assure structural changes that occur in the industry, as well as unique circumstances which may exist, will be reflected in the scheduled 1990 recomputation. **We would ask the support of this Committee in encouraging the Secretary of Agriculture to drop the proposal for any change.**

THE PERFORMANCE OF THE SBA PROGRAM 1982-1987

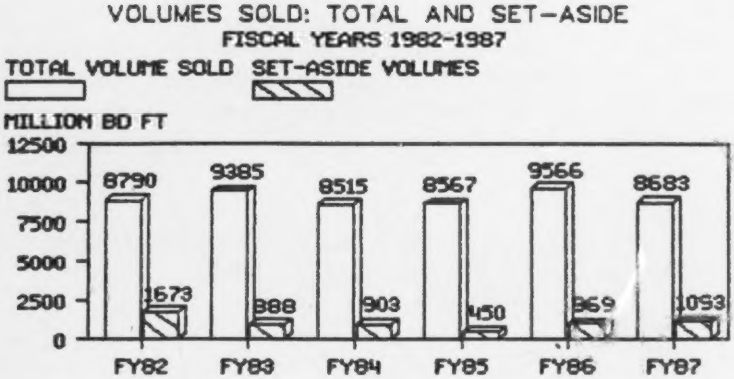
Considering the extreme criticism being leveled at the SBA program, any discussion should include an overview of the results its operation. While this discussion will focus on the nationwide results, the conclusions are essentially the same for the Region Six data. The review is based on sale results from FY 1982 through FY 1987 as displayed in Tables One, Two and Three and Figures One, Two and Three.

Less than 12% of timber sold as set-aside - Since 1982, small business has purchased about 65% of the volume sold by the Forest Service, but only 11.2% of the volume was sold as set-asides. In Region Six, set-asides only accounted for 9.7% of the volume during the period. This results from the unique characteristic of the program that provides for triggering of set-asides only where need is demonstrated.

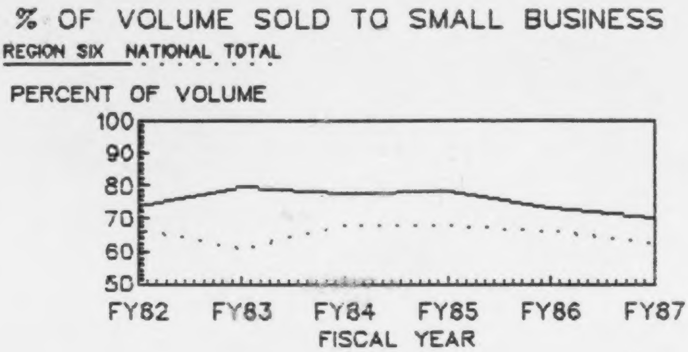
SUMMARY OF SBA PROGRAM PERFORMANCE FY 1982 - FY 1987

	TOTAL VOLUME MMBF	AVERAGE ANNUAL VOLUMES	PERCENT OF VOLUME	AVERAGE PRICE PER MBF	AVERGE SALE SIZE MBF
SOLD TO LARGE BUSINESS	18,534	3,089	34.6%	$100.63	4.81
OPEN SALES TO SMALL	28,999	4,833	54.2%	$99.13	1.96
SET-ASIDES TO SMALL	5,976	996	11.2%	$106.21	2.25
TOTAL VOLUME SOLD	53,509	8,918	100.0%	$99.65	2.52
TOTAL SALES TO SMALL	34,975	5,829	65.4%	$99.13	2.01

based on SBA Semi-annual reports



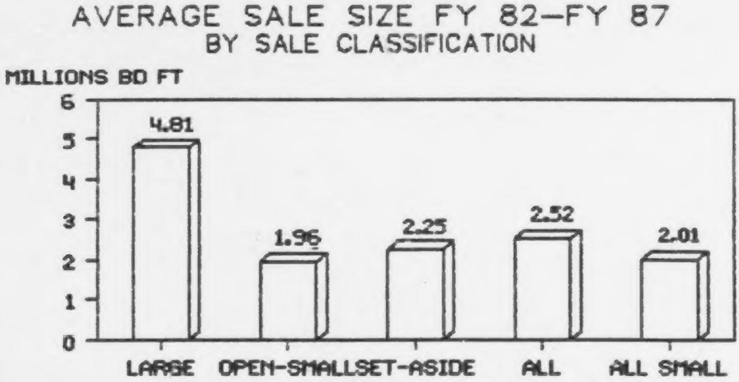
Small Business Purchases Stable - Contrary to the image of a rapidly expanding small business community, over the last six years purchases by small business have been stable at 65% varying by plus or minus five percent.



Prices Paid - Set-Asides No Subsidy - Large Business has claimed that the program provides higher quality sales at cheaper prices to small business at tremendous cost to the government. The data contradicts this claim. Over the review period, there was less than a $1.50 per thousand board feet difference between the prices paid by large ($100.63) and small business ($99.13) for Forest Service timber. **The most expensive timber nationally ($106.21) and in Region Six ($126.26) have been set-aside sales to small business.**

The fact that set-aside sales are more expensive is not surprising since they do not become available until the system has demonstrated that small business is not receiving in fair proportion of the timber. Typically, unable to buy adequate volumes of open sales, competition among small businesses is heightened when set-sides are available.

Sale Size - While large business can argue that it pays a little more for its timber, the difference ($1.50/mbf nationally and $5.92 in Region Six) is insignificant when one considers that sales purchased by large business are, on the average, nearly twice as large as those purchased by small business. Larger sales have longer terms providing economies of scale and increased operating flexibility, factors generally producing a premium at the bid table which one would expect to be even more than the indicated difference.



Without exaggerating the facts, the conclusion can clearly be drawn that the set-aside program does not subsidize small business nor does it reduce the government's return on the sale of its resources.

THE REGULATION REVISION PROCESS AND THE DENVER ACCORD

No one involved in the SBA regulation revision process can possibly have escaped hearing about the "Denver Accord." For the record, I would like to express our view of the issue.

During the long process that led up to the new regulations, numerous discussions were held with the administration, agencies, and representatives of both large and small business. In August of 1984, a meeting involving representatives of both large and small business was held in Denver. From this meeting evolved a package of changes that were recommended to the Agency to be published as a draft for public comment. In our democracy, whenever a committee representing larger groups gets together to work on resolving a problem, whether it be a committee of congress, a labor/management bargaining unit, or a high school activities committee, the result or proposals are subject to approval or rejection by the membership of the groups represented. The results of the Denver Accord were no different.

Within a couple days, after the results of the meeting were known, it was recognized that the proposal, as developed, contained a completely unacceptable provision to freeze the shares and provide for quick transfer of the shares of individual firms upon size change. This would have put a price on the head of each individual small business firm by making the share a salable value. The program is based on the concept that the interest of the small business community, and not individual firms, is to be protected. Within a week, our organization held a Board meeting and rejected those elements of the proposal.

While many of the compromises proposed at Denver were ultimately in the final regulations (including the 80% cap on share, limiting set-aside programs to 80% of volume in any period, structural change provisions, and special rules for the 1985 recomputation preventing indicated growth in SBA shares in some areas), the destructive elements were not.

Despite the objections of small business, the draft regulations published for comment were those developed at the Denver meeting. During the review process, small business worked diligently to address the concern of large business with the so-called "ratchet effect," where small business shares could be increased simply by increased purchasing. Rather than "freezing the shares," as originally proposed, the concept of basing recomputed shares on both purchase and harvest history (as first suggested by large business) was refined and recommended. With modification, this concept became the cornerstone of the final regulation now in operation. The proposal by the Secretary of Agriculture now under consideration does little more than reinstate the very concepts that were rejected in the public review process between draft and final regulations.

The Denver meeting, while a valuable session in developing many of the compromises ultimately included, was not, nor was it intended to be, a final and complete negotiating session.

SPECIFIC REVIEW OF THE PROPOSED REGULATIONS

Our organizations concur with the view of Senator Mark Hatfield, who has communicated to the Sectary of Agriculture the feeling of much of the Oregon delegation that "...Since the current regulations were adopted as recently as 1985, it would be imprudent to reopen questions we thought had been settled. ...The full five-year life of the current regulations should be fulfilled before considering additional changes." (Correspondence to Dennis Hayward January 4, 1988).

But beyond the procedural matter, Assistant Secretary of Agriculture Dunlop's proposed changes should be rejected on their merits.

FAILURE TO DEMONSTRATE NEED FOR CHANGE

During the past several months not only has the proposal been reviewed in detail, but several meetings were held with the administration to discuss the proposed changes. **During all of these reviews, the administration has failed to present any rational or convincing evidence justifying the proposed changes.** The only argument presented is that indicated shares, based on small business purchase and harvest, have increased in a number of areas during the first 18 months under the new rules. Upon examination, it is also noted that shares have decreased in some areas, and, more importantly, in those areas **where small business shares show significant increases, it is the result of large business reducing capacity or having made conscious decisions not to be competitive on government timber sales, rather than the result of any inequality in the operation of the SBA program.**

INCREASING SHARES

Much of the discussion over the proposal to freeze the shares has centered around the concern that the small business shares will increase significantly in some market areas. In western Oregon, our area, this involves four market areas: the Siskiyou East and West, the Umpqua North, and the Willamette North. Each of these were discussed in detail in a separate analysis prepared by our organization in September of 1987 and made available to this Committee. The review showed where there are significant increases indicated, there are several factors to be considered:

Time period too short. Drawing conclusions with only three of ten analysis periods completed is not adequate. The 24 month analysis now being developed by the Forest Service and the SBA should shed further light on the matter. One would expect that the increases would be moderated over time. Demand was exceedingly high during the 18 month period, and some large firms may have chosen the period to build corporate profits by accelerating harvest of their fee timber. This is not likely to continue. Our analysis of purchase activities shows, for example, that on the Umpqua North and the Siskiyou East market areas, indicated shares would be 13 percentage points lower for the first 24 months, as compared to values for only the first 18 months. **It is reasonable to assume that the indicated increases in share, which have created so much concern, will be significantly moderated when the five year recomputation period is completed in 1990.**

Current Shares are artificially low. It must be remembered that the shares established in 1985 were not those indicated by the small business history at the time, but were, by agreement, frozen at the 1980 levels or set even lower by a unique, one time only, formula to recognize the unusual industry conditions in the early eighties. On the average, the shares in Region 6 were set 7% below the 1981-85 purchase history: 5% below on the east side, and 11% below on the west side.

Contrary to the assumption that small business purchase history during the early eighties was artificially high, it now appears that the 1981-85 purchase history may indeed have been a fair representation of small business capacity and need. In the first 18 months under the new rules, small business average purchase and harvest has very closely approximated the 1980-1985 purchase history. What has been called an unacceptable increase in share is actually no growth or a decrease in share, compared to the earlier purchase history (see attached Table Four).

As a specific example, look at the situation on the Willamette north, one of the most controversial market areas. The share was originally set at 34% in 1970 and gradually grew to 57% in 1980, as large business cut out their private lands and abandoned the area, and small business picked up the slack. The 1985 purchase history would have set the share at **75%**, but through the agreement, the share was actually lowered to 49%. During the first 18 months, small business has purchased and harvested 74% of the timber, which large business calls a 25% increase (74-49), but when compared to their earlier purchase history (75%), it is actually a decrease.

The proposal to freeze the share at the artificially set 1985 values is clearly an attempt to prevent small business from securing a fair proportion of the timber supply.

Large Business Non-competitiveness. While the adminstration's attention has been centered on those areas where the share has increased, little effort has been made to answer the question, "Why?" In our earlier report we asked this question and compared the areas of stabilized share with those showing an increase. **The conclusions are clear: where large business has chosen to remain an active and competitive participant in the purchase of Forest Service timber, the share has not changed. Where large business has, of their own free will, chosen to be significantly less competitive, small business has purchased and performed on the timber sales. Large business, in choosing not to remain competitive on public timber, did so with a full knowledge of the rules of the SBA program. To now reward their decision by providing a risk free future, without the need for large business to compete, would be detrimental to both the small business community and the Federal government.**

Structural Changes. Another area where those concerned with increasing shares have failed to evaluate the circumstances is structural change. In the last several years, there have been some significant changes in the ownership of lumber and plywood capacity. As was pointed out time and again during the field meetings in November, some large business firms have completed liquidation of their private stumpage and have chosen to leave the state, rather than to compete for public timber. Many of these mills were purchased, modernized, and are now being operated by small business concerns. These changes were not included in establishing the shares on the west side of Region Six in 1985. These business investments were made with the understanding that both the element of stability, and the protection from the whims of giant corporations afforded by the small business program would remain in effect. The small business program does not assure adequate timber supply, nor allow a firm to escape the cost of competition, but it does assure the opportunity for an efficient small business to compete free of the threat of preclusive financially levered bidding by large business designed to eliminate small business.

Operating Multi-Sale Extension Plans

Large business, in some market areas, has indicated that they have reduced their level of purchases of public timber out of necessity, to harvest their private timber, in order to average down the cost of their Multi-Sale Extension Program (MSEP) sales.

While we recognize that the buy-out legislation was somewhat more favorable to the smaller timber holders by placing a cap of 200 million board feet on the total volume that could be bought out, small business did not escape the situation without a problem.

The program limited buy-out to 55% of the qualifying volume, meaning, that all participants, small or large, still had to operate on a minimum of 45% of the high cost timber.

The over-all burden was shared quite equally between the large and small business communities. **In Regions Five and Six, following completion of the buy-out program, large business held 3.309 billion board feet of pre-1982 volume and small business held 3.304 billion board feet. Small business, without the benefit of fee timber, as well as most large business, is operating this volume under the MSEP program while continuing to maintain their purchases of new Forest Service volumes.**

It should also be noted that the overall health of large business is sound. While they attack the program as being destructive to their survival, the newspapers contain daily information of strong recovery and profits, and many firms are expanding their operations. For example, in just the last couple of months, Sierra Pacific Industries purchased over one half million acres of western timber land, Roseburg Lumber Company bought 325,000 of timber land and two sawmills, and Bohemia announced the purchase of a major sawmill complex from International Paper Company.

MAINTAINING SCHEDULED RECOMPUTATIONS

The SBA timber program, as set out in the current regulation, is a unique program. Unlike many SBA programs which simply allocate a given percent of the government business exclusively for small business, this program allows totally open and free competition unless the need for set-asides is demonstrated. Remember that nationally, nearly 90% of the timber is sold as open sales. The Federal government is well-served by the system. Since the small business community never knows when or if a set-aside program will be triggered, it must remain competitive on all offerings. The government is also well-served by the provision that the small business community must perform on its sales in a responsible manner, or pay the cost in a reduced small business share.

The entire system is hinged on the concept that every five years the small business share, in each market area, will be recomputed. The harvest requirement protects large business from unrealistic ratcheting of the share through excess purchases. At the same time, the recomputation process assures the small business community that if, in open competition and performance, they are able to demonstrate an increased fair proportion, it will be established. As has clearly been demonstrated by the more realistic large business concerns, remaining competitive is the only expense of preventing small business growth.

NO NEED TO ALTER THE STRUCTURAL CHANGE GATE

The proposal to adjust the gate for triggering a structural change recomputation from ten to five percent of the purchase history is unnecessary. While we have no objection to the language clarifying the meaning of structural change, the reduction in the gate has not been justified. It should be remembered that when a recalculation is undertaken, unless the indicated share change is greater than +/- 5%, no change is made. Therefore, if a structural change triggered by a single 5% purchaser occurred, the chances that the remaining small businesses would not pick up enough volume to prevent any change is slight.

Since scheduled recomputations occur every five years, only those structural changes occurring in the first two years following recomputation would trigger an earlier recomputation. The current rules provide for the consideration of unique

circumstances. For example, if several firms changed size in a market area which cumulatively made a significant impact, but individually did not trigger the structural change, the Forest Service and SBA could agree to triggering a special recomputation.

One concern that small business has with the proposed change is the frequency structural change recomputations might be triggered with the lowered gate. With the gate lowered, not only would it seem logical that more structural change recomputations would be triggered in given market areas, but a single structural change could require structural change recomputations in more market areas. A significant purchaser in one market area (say 20% for example) will likely purchase over 5% in several other market areas.

SCHEDULED PROGRAM REVIEW NOT JUSTIFIED OR NEEDED

The third major change proposed is to require another fullblown review of the program in 1991. We view this proposal as little more than an attempt by the current administration to force its will on a future administration. "Study the Program to Death" appears to be a cornerstone of large business's longterm attack on the program. Keeping the program constantly under study reduces its stability and continually promotes further compromises.

A regulatory requirement for study is unnecessary. The results of the program are published on an annual basis and continually reviewed by interested parties. Any future Forest Service or SBA administration, or any interested Congressional offices, may request and require further detailed study of the program at anytime. If those in positions of authority in 1991 feel a study is needed, it can be done. But the decision should be made at

that time, and not in 1988.

SPECIAL RECOMPUTATIONS

No set of rules governing a program such as the SBA Timber program can cover all situations. Enough flexibility must be maintained so that the decisionmaker can recognize and make needed adjustments. This flexibility exists in the current regulations (and is maintained in the proposed regulations) by recognizing that, "Unique situations may develop which require special recomputations and departure from the established procedures."

We support this language and believe it will provide the opportunity for departure from standard procedures in 1990, where they are justified. In market areas where there are significant changes in the recalculated shares, the Forest Service and SBA have the opportunity to examine the situation closely and propose adjustments where appropriate.

Large business disagrees with our position and argues that the "unique circumstances" provision has not been used and therefore offers them no possible relief. **We disagree**. The entire recomputation process in 1985 was dealt with as a unique situation, with the resulting shares set significantly below what would have occurred if the pre-1985 recomputation procedures had been used.

Following that recomputation, the share was adjusted downward on one other western Oregon market area, even though it was more of a political situation, rather than a unique circumstance.

Under the unique circumstances provision, the business community, large or small, has the opportunity and responsibility to point out what they believe are "unique circumstances," which might lead to a recomputation procedure different than that required under normal procedures. At this point in time, there is no basis for the claims that the special recomputation procedures will not operate as intended.

During the meetings with the Assistant Secretary, small business was asked to consider defining what circumstances we would consider "unique." If we were to attempt to define specific situations as "unique," then they would be, by fact of definition, no longer "unique." The existing regulations already address the most obvious situations of catastrophic events requiring an operator to switch to major salvage efforts, or loss of a major facility due to natural events. We believe it would be improper to go beyond this level in defining what is unique. When the recomputation is under taken in 1990, all parties will have an opportunity to examine the factors affecting the results in each market area, and raise for consideration those they feel may be unique.

I would address, however, situations which we do not consider to be "unique." When a firm has the luxury of owning significant private timber lands and decides, strictly for business purposes, to concentrate on harvesting fee timber to avoid the more competitive public timber, this is not a "unique circumstance." Most small firms, without the luxury of less expensive fee timber, are already at a disadvantage in competing with large firms which can subsidize their bidding on government timber with the harvest of private timber. The Assistant Secretary's assertion that large firms need future protection while they accelerate the liquidation of their private stumpage is absurd.

COMMUNITY STABILITY

The administration, in support of the proposed changes, has made public statements that the "....change is needed to prevent future loss of jobs in communities economically dependent upon national forest timber." We would disagree, and argue that small firms have a much more solid history of maintaining operations in dependant communities. A look over the last twenty years shows time and again it has been the large corporations that have abandoned operations, while small business has struggled through the tough times, maintained efficiency, and demonstrated loyalty to their community. A recent study by the University of Oregon found that "Local owners in 1980-1985 were less likely to close mills than those with headquarters at least 40 miles distant from plants." And small business, family owned mills are much more likely to be headquartered in the community where their mills are located.

This is not to say that most large businesses are not good community citizens. Most are, but many also base their decisions more strictly on the bottom line, rather than including a concern for their community. **More than any other issue, future community stability will depend upon timber supply and the results of Forest Planning.**

PROPOSAL WOULD ADVERSELY IMPACT ECONOMY AND SMALL BUSINESS

In order to remain profitable while operating highly competitive public timber sales, the small business community has invested many millions of dollars in existing facilities, and in the purchase and upgrading of plants abandoned by large business. These investments have been based on the assurance of a viable and stabilized SBA timber program which would recognize earned and appropriate adjustments in the small business fair portion, as represented by the regularly recomputed shares. The proposal would clearly place these investments and the employment provided by them, in jeopardy.

It is now clearly evident that the Forest Service plans to reduce timber supply in Region Six by about 20% as a result of the Forest Planning process. While such reductions are in our view unnecessary, they are nontheless scheduled. If shares are frozen as proposed, then the opportunity, through free competition, for small business to maintain its current volume needs will be lost. **In the face of a decreasing Federal timber supply, a freeze in share would assure that adjustments in capacity would occur by small businesses being totally eliminated, rather than large business reducing capacity at some facilities. In the long run, this will mean fewer individual purchasers of Forest Service timber, less competition, and reduced levels of dollar returns to the government.**

CONCLUSION

It is the philosophy of our organization to deal with issues in a factual manner, to be constructive in our criticism, and to offer alternatives for resolving problems. We have dealt with the SBA program issues in this manner, most notably in offering changes and compromises in the 1985 review. We felt very good about the results: inequities raised by large business were addressed, the small business community assumed more responsibility for its actions, and the intent of the program was preserved.

The changes now proposed are a different story. A need for change has not been demonstrated. The very heart of the program itself has been challenged in a manner that can only be explained as politically motivated. There is no room, nor any need, for compromise or change. The program should be allowed to continue to operate under the existing rules. If legitimate concerns still exist in 1991, they can be addressed as part of the recomputation process. If changes to the rules are to be considered, then all the changes and compromises made in 1985 must also be revisited!

We greatly appreciate the interest of this Committee, as well as other members of Congress, who have shown their concern, and urge you encourage the Forest Service and Department of Agriculture, in the strongest possible terms, to drop the proposed changes and retain the SBA policy as published on June 13, 1985.

ANALYSIS OF SBA VOLUMES AND VALUES

Values are nation wide for FY 1982 through FY 1987

TOTAL SALES AWARDED	FY82	FY83	FY84	FY85	FY86	FY87	TOTAL
VOLUME MMBF	8790	9385	8518	8567	9566	8683	53509
SALE VALUE DOLLARS	$779,995	$1,000,382	$858,392	$693,445	$928,733	$1,071,172	$5,332,119
DOLLARS PER M	$88.74	$106.59	$100.77	$80.94	$97.09	$123.36	$99.65
NUMBER OF SALES	3691	3759	3663	3534	3392	3236	21275
AVERAGE SALE SIZE	2.38	2.50	2.33	2.42	2.82	2.68	2.52

SALES AWARDED TO LARGE	FY82	FY83	FY84	FY85	FY86	FY87	-TOTAL
VOLUME MMBF	2913	3673	2742	2723	3261	3222	18534
SALE VALUE DOLLARS	$254,359	$387,276	$266,894	$217,543	$321,513	$417,520	$1,865,105
DOLLARS PER M	$87.32	$105.44	$97.34	$79.89	$98.59	$129.58	$100.63
NUMBER OF SALES	644	770	571	595	667	607	3854
AVERAGE SALE SIZE	4.52	4.77	4.80	4.58	4.89	5.31	4.81

OPEN SALES AWARDED TO BOTH SIZE CLASSES	FY82	FY83	FY84	FY85	FY86	FY87	TOTAL
VOLUME MMBF	7117	8497	7615	8117	8597	7590	47533
SALE VALUE DOLLARS	$629,540	$902,853	$751,754	$659,276	$831,459	$922,547	4697429
DOLLARS PER M	$88.46	$106.26	$98.72	$81.22	$96.72	$121.55	$98.82
NUMBER OF SALES	5307	6190	5437	5466	5565	5327	33292
AVERAGE SALE SIZE	1.34	1.37	1.40	1.48	1.54	1.42	1.43

TOTAL AWARDED TO SMALL	FY82	FY83	FY84	FY85	FY86	FY87	- TOTAL
VOLUME MMBF	5877	5712	5776	5844	6305	5461	34975
SALE VALUE DOLLARS	$525,636	$613,106	$591,498	$475,902	$607,220	$653,652	3467014
DOLLARS PER M	$89.44	$107.34	$102.41	$81.43	$96.31	$119.69	$99.13
NUMBER OF SALES	3047	2989	3092	2939	2725	2629	17421
AVERAGE SALE SIZE	1.93	1.91	1.87	1.99	2.31	2.08	2.01

OPEN SALES TO SMALL BUSINESS	FY82	FY83	FY84	FY85	FY86	FY87	TOTAL
VOLUME MMBF	4204	4824	4873	5394	5336	4368	28999
SALE VALUE DOLLARS	$375,181	$515,582	$484,860	$441,733	$509,946	$505,027	2832329
DOLLARS PER M	$89.24	$106.88	$99.50	$81.89	$95.57	$115.62	$97.67
NUMBER OF SALES	2394	2517	2695	2743	2304	2105	14758
AVERAGE SALE SIZE	1.76	1.92	1.81	1.97	2.32	2.08	1.96

SET-ASIDE TO SMALL BUSINESS	FY82	FY83	FY84	FY85	FY86	FY87	TOTAL
VOLUME MMBF	1673	888	903	450	969	1093	5976
SALE VALUE DOLLARS	$150,455	$97,523	$106,638	$34,169	$97,274	$148,625	634684
DOLLARS PER M	$89.93	$109.82	$118.09	$75.93	$100.39	$135.98	$106.21
NUMBER OF SALES	653	472	397	191	422	524	2659
AVERAGE SALE SIZE	2.56	1.88	2.27	2.36	2.30	2.09	2.25

	FY82	FY83	FY84	FY85	FY86	FY87	TOTAL
% OF VOLUME SET-ASIDE	19.0%	9.5%	10.6%	5.3%	10.1%	12.6%	11.2%
% OF VOLUME AWARDED TO SMALL BUSINESS	66.9%	60.9%	67.8%	68.2%	65.9%	62.9%	65.4%

source: SBA Semi-annual reports

ANALYSIS OF SBA VOLUMES AND VALUES

Values are Region Six for FY 1982 through FY 1987

TOTAL SALES AWARDED	FY82	FY83	FY84	FY85	FY86	FY87	TOTAL
VOLUME MMBF	3895	3796	3903	3734	4137	4341	23806
SALE VALUE DOLLARS	$399,652	$502,024	$450,221	$367,513	$520,515	$665.068	$2,904,993
DOLLARS PER M	$102.61	$132.25	$115.35	$98.42	$125.82	$153.21	$122.03
NUMBER OF SALES	1203	1145	1195	1042	895	903	6383
AVERAGE SALE SIZE	3.24	3.32	3.27	3.58	4.62	4.81	3.73

SALES AWARDED TO LARGE	FY82	FY83	FY84	FY85	FY86	FY87	TOTAL
VOLUME MMBF	1016	958	854	812	1051	1280	5971
SALE VALUE DOLLARS	$110,727	$133,222	$100,283	$95,200	$143,761	$212,683	$795,876
DOLLARS PER M	$106.98	$139.06	$117.43	$117.24	$136.78	$166.16	$133.29
NUMBER OF SALES	175	154	150	132	177	197	984
AVERAGE SALE SIZE	5.81	6.22	5.69	6.15	5.94	6.50	6.07

OPEN SALES AWARDED TO BOTH SIZE CLASSES	FY82	FY83	FY84	FY85	FY86	FY87	TOTAL
VOLUME MMBF	3361	3609	3672	3572	3603	3767	21584
SALE VALUE DOLLARS	$346,467	$462,762	$419,271	$355,013	$454,637	$573,492	$2,611,642
DOLLARS PER M	$103.08	$128.22	$114.18	$99.39	$126.18	$152.24	$121.00
NUMBER OF SALES	1055	1079	1146	1004	816	800	5900
AVERAGE SALE SIZE	3.19	3.34	3.20	3.56	4.42	4.71	3.66

TOTAL AWARDED TO SMALL	FY82	FY83	FY84	FY85	FY86	FY87	TOTAL
VOLUME MMBF	2879	3017	3049	2922	3036	3061	17964
SALE VALUE DOLLARS	$288,295	$368,802	$349,938	$272,313	$376,754	$452,385	$2,108,487
DOLLARS PER M	$100.14	$122.24	$114.77	$93.19	$124.10	$147.79	$117.37
NUMBER OF SALES	1028	992	1045	910	718	706	5399
AVERAGE SALE SIZE	2.80	3.04	2.92	3.21	4.23	4.34	3.33

OPEN SALES TO SMALL BUSINESS	FY82	FY83	FY84	FY85	FY86	FY87	TOTAL
VOLUME MMBF	2345	2731	2818	2760	2552	2487	15693
SALE VALUE DOLLARS	$235,740	$329,540	$318,988	$259,813	$310,876	$360,809	$1,815,766
DOLLARS PER M	$100.53	$120.67	$113.20	$94.14	$121.82	$145.08	$115.71
NUMBER OF SALES	880	925	996	872	639	603	4915
AVERAGE SALE SIZE	2.66	2.95	2.83	3.17	3.99	4.12	3.19

SET-ASIDE TO SMALL BUSINESS	FY82	FY83	FY84	FY85	FY86	FY87	TOTAL
VOLUME MMBF	534	286	231	162	534	574	2321
SALE VALUE DOLLARS	$53,185	$39,262	$30,950	$12,500	$65,878	$91,516	293291
DOLLARS PER M	$99.60	$137.28	$133.98	$77.16	$123.37	$159.44	$126.36
NUMBER OF SALES	148	67	49	38	79	103	484
AVERAGE SALE SIZE	3.61	4.27	4.71	4.26	6.76	5.57	4.80

% OF VOLUME SET-ASIDE	13.7%	7.5%	5.9%	4.3%	12.9%	13.2%	9.7%
% OF VOLUME AWARDED TO SMALL BUSINESS	73.9%	79.5%	78.1%	78.3%	73.4%	70.5%	75.5%

source: SBA Semi-annual reports

REGION SIX- SBA SHARE DATA OVERVIEW - ALL FIGURES ARE SBA SHARE PERCENTS

MARKET AREA	1970	1975	1980	1985		18 MONTH	CHANGE 1987 VS.	
	BASE	RECP	RECP	PURC	SET	P&H	85 SHARE	85 PURC
SOUTHERN OREGON:								
ROGUE RIVER	63	63	64	74	64	63	-1	-11
SISKIYOU EAST	38	42	40	61	40	70	30	9
SISKIYOU WEST	73	73	79	83	79	80	1	-3
UMPQUA SOUTH	48	49	45	52	45	43	-2	-9
UMPQUA NORTH	10	11	10	21	10	59	49	38
AVERAGES	48	49	48	58	48	63	15	5
WESTERN OREGON:								0
SIUSLAW HEBO	59	57	64	76	64	71	7	-5
SIUSLAW MAPLETON	68	67	71	73	71	72	1	-1
SIUSLAW ALSEA-WALPORT	80	78	78	79	70	77	7	-2
WILLAMETTE NORTH	34	39	57	75	49	74	25	-1
WILLAMETTE MIDDLE	73	70	75	70	75	76	1	6
WILLAMETTE SOUTH	53	53	53	56	53	54	1	-2
MT HOOD WEST	47	52	63	88	63	70	7	-18
AVERAGES	59	59	66	74	64	71	7	-3
AVE ALL WESTERN OREGON	54	55	58	67	57	67	11	0
EASTERN OREGON:								0
DESCHUTES	29	30	33	27	33	31	-2	4
FREMONT-KLAMATH	62	64	62	63	62	57	-5	-6
FREMONT-LAKEVIEW	32	33	36	41	36	31	-5	-10
MALHEUR	11	10	26	66	66	80	14	14
MT. HOOD EAST	95	92	91	92	80	80	0	-12
OCHOCO SNOW MT	2	6	17	63	63	78	15	15
OCHOCO PRINVILLE	48	48	47	70	70	65	-5	-5
UMATELLA NORTH	39	39	36	46	46	39	-7	-7
UMATELLA SOUTH	48	49	45	31	45	47	2	16
WALLAWA-WHITMAN	46	47	54	57	57	44	-13	-13
WINEAMA	60	52	48	51	48	35	-13	-16
AVERAGES	43	43	45	55	55	53	-2	-2
WESTERN WASHINGTON:								0
GIFFORD-PINCHOT SOUTH	67	69	64	92	64	80	16	-12
GIFFORD-PINCHOT NORTH	58	59	69	81	80	80	0	-1
MT BAKER	66	72	89	95	80	80	0	-15
SNOQUALMIE	57	58	66	80	75	60	-15	-20
OLYMPIC- PENNISULA	59	59	61	75	61	80	19	5
OLYMPIC- QUINAULT	70	74	71	80	71	80	9	0
AVERAGES	63	65	70	84	72	77	5	-7
EASTERN WASHINGTON								0
COLVILLE	40	44	41	63	63	80	17	17
WENATCHEE CHELAN	23	28	62	61	36	37	1	-24
WENATCHEE KITTITAS	30	31	46	53	46	52	6	-1
WEN.-NACHES-TIETON	34	37	34	61	34	51	17	-10
OKANOGAN	27	27	27	32	22	22	0	-10
AVERAGES	31	33	42	54	40	48	8	-6
WEST SIDE R-6 AVERAGE	57	58	62	73	62	71	9	-2
EAST SIDE R-6 AVERAGE	39	40	44	55	50	52	1	-3
ALL REGION 6 AVERAGE	49	50	54	64	57	62	5	-3

The CHAIRMAN. Thank you very much, Mr. Hayward. Joe.

STATEMENT OF JOSEPH S. MILLER, LEGISLATIVE REPRESENTATIVE, WESTERN FOREST INDUSTRIES ASSOCIATION, WASHINGTON, DC

Mr. MILLER. Thank you, Mr. Chairman.

I am Joseph S. Miller, and for the last 28 years I have been legislative representative of the Western Forest Industries Association of Portland, OR, as well as, as you know, some other groups.

I would like to give a kind of a little historical overview, and I am sorry, Mr. Chairman, Joe McCracken, who generally testifies for us, could not make it. I think a statement was submitted which I have not seen, so if you have read it, you are up on me.

I had a little historical overview of this program because I have been involved with it over almost 30 years.

As you know, in 1958, when the Small Business Act passed, Senators Wayne Morse and Frank Church prevailed on Chairman Sparkman, who was the floor manager of the bill, to add three little words which gave us the program, which was that Federal property could be disposed of as well as the other.

The program really was never put into practice from 1958 on through going into the late 1960s. We had it—Secretary Freeman applied it in the Puget Sound region when we had a very serious log export problem, and I think in North Idaho, Dick Bennett's areas, why, there were programs on some forests, but as far as the 156 National Forests, there was no program.

Then in the late 1960's, 1969, to be more specific, but leading up to 1969, you had some very aggressive large companies, principally Louisiana Pacific and in lesser degree Georgia Pacific and Crown Zellerbach, and they started gobbling up small businesses. When prices collapsed in 1969 and we went into a very serious valley in the industry, why, the gobblings up proceeded at a great pace.

The CHAIRMAN. You said 1969. That was 1979, was it not?

Mr. MILLER. No, 1969. That was the big one. That was the——

The CHAIRMAN. Well, do not talk to me about anything that happened before I got here. I remember the next one.

Mr. MILLER. Anyway, we were very fortunate going into 1971, after this period of extensive acquisitions by big business of small business had taken place, we were very fortunate to have an economist as the head of the Forest Service then, John R. Maguire, who was the first economist, nonforester, that we have really had with the Forest Service, and he recognized the historical importance, that the industry had had a very fine, competitive balance between large business and small business, and that this had to be preserved. And we were very fortunate with our SBA Administrator who had recently lost a Senate race to Senator Burdick in North Dakota, and he was just aboard, and he had had good experience with small business. He was a businessman himself. That was Tom Kleppy, who you remember as Secretary of the Interior.

And all this took place in the Nixon Administration, too. Between John Maguire and Tom Kleppy, they came out with a very good, with the program we have in place now, and amidst some considerable opposition in the White House, got it approved and got it put into place, and it has been operating since then.

Interestingly, in the period of great depression in the industry from 1981 through 1984, when the bottom dropped out of everything, it was the Charlie Thomases and the Dick Bennetts, the small business interests, that kept plugging, kept things alive, took the losses where a lot of the bigger companies either folded their tents and shut down their mills. But those fellows that were in place on the small side of the game, they kept going, and the industry has survived with its competitive balance that so many industries in this country have not done, manufacturing industries.

The reason we feel as strongly as we do against what the Forest Service, the Department of Agriculture is trying to put across on us here is that this program, as Charlie pointed out, it has got dynamics. Sometimes the small business share goes up. Sometimes it goes down. Sometimes it stays even. But you take away the five year averaging, that kind of thing out of it, freeze things where they are, and you take away the essential dynamics of this program.

And I think as you said at the outset, and it is a cliche, but I will say it again in closing, if it ain't broke, for God's sake, don't fix it.

Thank you, Mr. Chairman.

[The prepared statement of Mr. McCracken follows:]

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TESTIMONY OF JOSEPH P. MCCRACKEN
PRESIDENT, WESTERN FOREST INDUSTRIES ASSOCIATION
BEFORE THE SENATE COMMITTEE ON SMALL BUSINESS
MARCH 2, 1988

Mr. Chairman, thank you for the opportunity to testify before you today on this most important issue. Western Forest Industries Association is a forest products industry trade association representing primarily small business, independent, family-owned manufacturers from throughout the West and Lake States. All of our members are significantly dependent on public timber supplies for their survival. Additionally, the SBA set-aside program has allowed them to remain competitive and most importantly, to provide a reliable employment base for tens of thousands of family wage earners in dozens of small communities. Therefore, our interest in any changes to the set-aside program is acute.

The proposed changes to the present USDA Forest Service SBA set-aside program will do three distinct things: 1) eliminate all scheduled small business share recomputations, 2) lower the structural change gate from 10% to 5% and 3) establishes a commitment to review the program effects in 1991.

Freezing the shares

Elimination of future recomputations of small business shares is effectively a freeze on the existing shares as implemented in 1985. WFIA strongly opposes such a freeze. We understand the impetus for such a proposal came from the small business purchase and harvest history for the first three six month periods of the existing five year program. In a number of market areas in the West, the 18 month data indicated that if small business shares were recomputed as of March 31, 1987, the small business share would increase. We feel that 18 months of a 5 year period is too short a period to base such a change in the program.

The program presently in effect is the result of many compromises and concessions on the part of both large and small business. One of the issues that was resolved in favor of the large business interest is the concern over ratcheting of the small business share. The present program bases any recalculated change in shares on the purchase and harvest history of small business.

There are several reasons for the apparent trend in small business shares on some market areas to increase. The most obvious and the one that is recognized by the Forest Service and large business, is that large business has not been effectively participating in certain market areas. In many areas large business has the opportunity to turn to their relatively inexpensive private timber to meet their raw material needs. They have chosen to avoid buying market-priced Forest Service timber sales while operating Multi-Sale Extension Plan sales. Most of our members are forced to operate their MSEP sales without the opportunity to blend them in with inexpensive private timber. In any event, large business still has plenty of time (three years) to increase their timber purchases in market areas where the present concerns exist.

Another important factor in understanding why the small business shares may be increasing in some areas is that the resolution of the program in 1985 set the small business shares for the current period at less than the actual purchased volume during the preceding five years. The attached tables for Regions 5 and 6 substantiate this fact. In most market areas the 18 month purchase and harvest is very close to the small business purchase history from 1981-85. Unfortunately, for most of Region 6 and all of Region 5 the shares were set at the 1976-80 level, taking into account small business harvest history from 1975-79. Hindsight may allow us to see that the purchase patterns of the early 80s do represent the actual needs of the small business community.

The 18 month purchase and harvest data also reflects change in the forest products industry over the past seven years. There is case after case of large business closing down or otherwise disposing of manufacturing plants throughout the West. Many of these mills were subsequently purchased and reopened by small businesses. In some areas existing small businesses have increased their capacity to fill the void created by the departing large company. Therefore, it is possible that the potential change in shares represents the reorganization the forest products industry is going through. If shares are frozen at the 1985 recomputation level, large business has an opportunity to exercise real or perceived preclusive bidding patterns without fear of triggering the program in areas where a share surplus exists today. This action would eliminate the SBA program for those market areas.

The Draft Forest Plans required under the National Forest Management Act indicate a significant reduction in timber supply from the National Forests. If such a reduction were to occur, the combination of freezing of shares and the drop in sales program would be a disaster for small business. Small businesses aren't able to mitigate the possible drop in sale programs by shifting to private timber. Almost all small businesses rely on public timber for their raw material supply..

WFIA feels that the indicated increase in small business shares in some market areas is due to the lack of competitiveness of large business, setting the shares at too low a level for the 1986-90 period and the restructuring of the makeup of the industry. For these reasons we don't feel a freeze of the shares is warranted. However, if a situation exists where the potential increase in share poses unique problems, the unusual circumstances provision in the current program allows the Forest Service to intervene. The existing program contains some flexibility to deal with these problems.

Structural change gate

WFIA opposes the proposal to lower the gate for triggering a structural change recomputation from 10% to 5%. We are very dismayed at the lack of research done by the Forest Service in trying to determine what is the appropriate percentage for a gate. Important information needs to be gathered to allow a responsible decision on the appropriate level for the structural change gate. The number of companies in each market area that purchased 5% and the numbers that have purchased 10% of the sale program during the preceding 5 years would be very helpful in determining the impact of lowering the structural change gate from 10% to 5%. Also, the number of recomputations triggered during the first 24 months of the existing program with the 10% gate and how many would have occurred with 5% as the gate is important to know before a decision can be made.

1991 Program Review

It is unnecessary to schedule a program review at this time. The Forest Service can review the program at any time. Scheduling a review four years away only underscores the instability of the program. The Small Business Administration has a tremendous amount of expertise in administering SBA programs. The current review and all future reviews of the program by the Forest Service should include representation from the SBA.

Impacts

Eliminating future recomputations will have a significant impact. Small business firms will be driven from their traditional supply sources or forced to pay exorbitant prices as a result of preclusive bidding from large firms. In the market areas where small companies have purchased large business mills or made substantial capital investments in existing facilities there is much to lose from a freeze in shares. In these areas the small companies and the communities that depend on them are now both dependent on the levels of Forest Service timber purchased and harvested under the current program. Freezing the supply that's available to them without taking account of the changes that have occurred will create a tremendous economic and social impact. Future proposals dealing with the set-aside program should disclose all of the potential impacts.

Summary

Many of our members, representing mills in Washington, Oregon, California, Idaho, Montana and Arizona, attended the recently held meetings with Assistant Secretary of Agriculture George Dunlop, Deputy Assistant Secretary Doug MacCleery and Associate

Chief George Leonard. There were two messages that were very clear from those meetings. First, without exception, the small business community opposes the proposed changes to the SBA program. Second, many timber dependent communities that were deserted by large business now rely on small business to provide the employment base from the timber industry.

The views expressed at those meetings represent the entire small business community. These companies have strong ties to their communities. Unlike many large companies they have operated their plants through the good times and the bad times. Adopting the proposed changes would harm both the family-owned companies and the dependent communities.

Now is not the time to institute changes in the program. WFIA feels strongly the Forest Service should monitor the program for the remainder of the five-year period. If changes are necessary, they can be analyzed incorporating the experience of a full period under the new program.

Once again, thank you for the opportunity to appear before you today. We hope you will support our view that the Forest Service SBA set-aside program does not need to be changed.

The CHAIRMAN. Thank you, Joe.
Mr. Bennett.

STATEMENT OF RICHARD G. BENNETT, EXECUTIVE VICE PRESIDENT, BENNETT LUMBER PRODUCTS, INC., PRINCETON, ID

Mr. BENNETT. Thank you, Mr. Chairman.

I am Richard G. Bennett, a second generation lumberman from the Pacific Northwest. I have submitted my statement, and I will submit a statement also from the Small Business Timber Council, and I will highlight my statement, if that is okay.

The CHAIRMAN. Thank you very much.

Mr. BENNETT. I am testifying this afternoon on behalf of these three companies, Bennett Lumber Products of Princeton, ID, Guy Bennett Lumber Co. of Clarkston, WA, and Shearer Lumber at Elk City, ID. I am also testifying on behalf of the Small Business Timber Council, an ad hoc committee of forest products companies in Idaho in the inland area.

I was chairman of the group of small business companies from the South and Western United States that helped shape the original small business U.S. Forest Service agreement. That brought on the *Duke City* v. *Bennett* lawsuit attacking the program, which we eventually won.

Since that time, every time we have had a new Administration or a new change in leadership in Congress, we have had hearings on this program brought on by the big business groups. This is at least the fifth congressional hearing, and I cannot count how many times I have appeared before the Secretary of Agriculture or the Forest Service on hearings regarding this program.

Mr. Chairman, the big business witnesses who will testify today will tell you that they do not oppose the idea of a Small Business Timber Set-Aside Program. They will say that all they want to do is change the program so it is fair and equitable to all purchasers, regardless of size.

That is nonsense. The program is already fair and equitable, and was updated less than 3 years ago.

As one who has helped shape and protect the SBA program during the past two decades, I can tell you that the battleground and combatants have changed very little since the current program was implemented in 1971. All that has changed are the strategies and tactics used by big business to attack the program. Whether the issue of the day is moving from discretionary Set-Aside Program to an automatic one, reducing the size standard below 500 employees, or raising the price bid for set-aside timber or freezing small business shares, the goal of the big business is always the same. The giant forest products companies will not stop until they have killed the Set-Aside Program or rendered it ineffective.

One of the purposes of this hearing is to examine the proposal made by the Administration in September 1987, to freeze small business shares in the Western States at the levels set in 1985 following the last recomputation of shares. Under the set-aside policy now in effect, shares are recomputed every 5 years, and approximately 3 years after a mill with major influence in a market area changes size class or closes permanently, so-called structural change recomputation.

The policy change proposed last September would eliminate all regular recomputations and leave only the structural change recomputation procedure in place. We are unalterably opposed to this proposal because it is both unfair and unnecessary.

To help you understand why we have taken this position, let me describe the situation which exists in the St. Joe market area.

There are numerous large and small business firms which look to this market area to meet a portion of their raw material needs, including our Bennett Lumber Mill at Princeton. Prior to 1965, small business purchased more than 50 percent of the timber sold in the St. Joe market area. However, between 1966 and 1970, Potlatch and others stepped up its Federal timber purchases, and the small business share established in 1971 was 29 percent. Potlatch and, as I recall it, LP, at that time purchased nearly 80 percent of the volume in 1968, 1969, and 1970.

Throughout the 1970's, Potlatch continued to dominate the market area, and the small business could not regain the ground it had lost previously. The share rose to 35 percent in 1976, but fell back to 32 percent in 1980 because of the carryover volumes.

The 1980's, on the other hand, have been a particularly traumatic experience for Potlatch. Between 1981 and 1985, the company greatly reduced its purchases of National Forest timber from all the market areas in north Idaho as a result of decisions to permanently close two of the saw mills in Spaulding and Potlatch in 1981, to temporarily shut down some of their other mills during 1982, curtail the plywood mill in 1983, close the Kamiah mill completely in 1983 or 1984, and close down the plywood mill in Lewiston, and a decision to cut almost exclusively on their own private holdings.

As a result of these actions by Potlatch and a resurgence of the small business during the same period, a 49-percent share was set in 1985 based upon small business purchases from 1981 to 1985. While a substantial increase from the 29- to 35-percent share in effect during the previous 15 years, the 49-percent share was really nothing more than a return to the normal competitive situation which existed in this market area prior to 1965.

Mr. Chairman, the conclusion that I would like you to draw from this example is that big business has nothing to fear from the periodic recomputation of small business shares so long as they are consistent purchasers of National Forest timber.

The 17-percent share increase on the St. Joe market area does not mean that future recomputations will see comparable share increases unless large business permits such increases. What it means is the Set-Aside Program is working as intended. Because shares rise and fall as the timber needs of small business firms change, the share on the St. Joe has been able to return to its natural level. That is one of the reasons why we feel that the regular recomputation of small business shares is an essential element of the Set-Aside Program.

Before I conclude, I want to correct some misconceptions about companies such as ours who employ more than 100 people but less than 500. I am certain that the big business witnesses will tell you that the Set-Aside Program ought to be structured so that it helps the truly small and needy firms. They will justify this suggestion by saying that there is really no difference between a Bennett Lumber and a Potlatch, and that we do not need the protection of the Set-Aside Program any longer.

As one who has competed against large business for Federal timber for 35 years, I can tell you that there are, in fact, dramatic differences between our company and the giants of the forest products industry. To illustrate these dissimilarities, I have prepared three charts which are attached which compare the three largest lumber producers with mills in Idaho and the three largest set-aside eligible companies operating within the State.

Whether you compare lumber sold, total sales or timberland ownership, you can see that we are just not in the same league. Taking away the protection which the Set-Aside Program provides us would be like putting a junior high school hockey team up against the Olympic gold medal winners from the Soviet Union. It would not be a fair fight.

In closing, Mr. Chairman, I want to thank you for holding this hearing and for hopefully convincing the Department of Agriculture to postpone its decision on the pending Set-Aside Program revisions. It appears to the small business community that the proposed changes are politically motivated. We hope you can help us convince the administration to leave the program alone.

The changes made to the Set-Aside Program in 1985 and other reforms adopted recently by the Forest Service such as increased deposits and periodic payments, have eliminated the ability of small business to purchase timber just to increase shares. Future small business shares increases can only occur if small business demonstrates increased need through greater timber purchases and harvest. Freezing shares at the present will limit the growth of existing small business and preclude new small business startups. Freezing shares will only undermine the Small Business Set-Aside Timber Sale Program, and the concept must be rejected.

The most important part of this program is the stability and the reliability of the program. Our lives depend on it. All of our business decisions are made based on this program, and I repeat what everybody else has said, if it ain't broke, don't fix it.

Thank you.

[The prepared statement of Mr. Bennett follows:]

Statement of
Richard G. Bennett
Executive Vice President, Bennett Lumber Products, Inc.
before the
Committee on Small Business
United States Senate
March 2, 1988

Mr. Chairman and members of the Committee, I am Richard G. Bennett, a second generation lumberman from the Pacific Northwest. The Bennett family owns and operates three lumber manufacturing facilities: Guy Bennett Lumber Company at Clarkston, Washington; Bennett Lumber Products, Inc., at Princeton, Idaho; and Shearer Lumber Products, Inc., at Elk City, Idaho.

I am testifying this afternoon on behalf of these three companies and the men and women who work for us and whose livelihood truly depends upon a strong and effective Small Business Timber Set-Aside Program. I also have a statement to submit for the record by the Small Business Timber Council (SBTC). The SBTC is an *ad hoc* committee of forest products producers that are eligible for and participate in the Set-Aside Program. All three of our companies are SBTC members.

The Set-Aside Program is Our Life Blood

To participate in the Set-Aside Program, a company must certify that it is: (1) primarily engaged in logging or manufacturing forest products; (2) independently owned and operated; (3) not dominant in its field of operation; and (4) a firm with less than 500 employees (including affiliates).

Because the Bennett family lumber companies and our affiliated businesses employ approximately 325 people, we are one of the larger Set-Aside eligible companies. Some of the witnesses at this hearing will tell you that we no longer need the support of the Set-Aside Program to compete and survive. I am here to tell you that the Set-Aside Program is our life-blood.

Mr. Chairman, the Set-Aside Program is vitally important to small business firms of all shapes and sizes. The Program has allowed us to survive and grow, to compete and prosper. The Set-Aside Program is likewise important to other family-owned companies -- whether they employ a lot of people or just a handful. The Program has nurtured and protected them, too.

Although the Set-Aside Program operates under complex rules, the underlying theory is quite simple. Small business purchasers are assured a fair proportion of Forest Service timber. This "fair share" is determined by comparing the amount of timber which we are buying currently with the percentage of timber purchased and harvested by the small business community in the recent past. If we are not able to buy our "share" of timber at sales open to all competitors, then a percentage of sales are "set-aside" exclusively for small business competition.

As I said, the Set-Aside Program is our life-blood. It protects us from our large business neighbors who, from time-to-time, attempt to buy all the federal timber available for purchase. Because we do not have access to an alternative supply of timber, we cannot keep our mills operating unless we can buy consistently from the Forest Service. Without the Set-Aside Program, as sure as I am sitting here, we would be forced out of business any time a company such as Potlatch or Weyerhauser decides to expand its operations.

The Fight Goes On and On

Mr. Chairman, the big business witnesses who will testify today will tell you that they do not oppose the idea of a Small Business Timber Set-Aside Program. They will say that all they want is to change the Program so that it is "fair and equitable" to all purchasers, regardless of size. That is nonsense. The Program is already fair and equitable, and was updated less than three years ago.

As one who has helped shape and protect the Set-Aside Program during the past two decades, I can tell you that the battleground and combatants have changed very little since the current Program was implemented in 1971. All that has changed are the strategies and tactics used by big business to attack the Program.

Whether the issue of the day is moving from a discretionary Set-Aside Program to an automatic one, reducing the size standard below 500 employees, raising the price paid for set-aside timber, or "freezing" small business shares, the goal of big business is always the same. The giant forest products companies will not stop until they have killed the Set-Aside Program or rendered it ineffective.

On at least four prior occasions -- August 1974, May 1979, February 1982, and February 1988 -- Congressional committees with jurisdiction over the Set-Aside Program have taken an in-depth look at the Program. This is the fifth such hearing. I urge the members of this committee to do what your predecessors did: tell big business to back-off. I also urge you to tell the Administration to stop fooling with the Set-Aside Program.

Freezing Shares is a Bad Idea

One of the purposes of this hearing is to examine the proposal made by the Administration in September 1987 to freeze small business shares in the western states at the level set in 1985 (following the last recomputation of shares). Under the Set-Aside policy now in effect, shares are recomputed every five years (so-called "regular recomputations") and approximately three years after a mill with major influence in a market area changes size classes or closes permanently (so-called "structural change recomputations").

The policy change proposed last September would eliminate all regular recomputations and leave only the structural change recomputation procedures in place. We are unalterably opposed to this proposal because it is both unfair and unnecessary. To help you understand why we have taken this position, let me describe the situations which exist in the Nez Perce and the St. Joe market areas, two areas of particular concern to us.

The Nez Perce Market Area

The Nez Perce Market Area consists of the Nez Perce National Forest, which is located in north-central Idaho. There are two small business mills located in the middle of this market area, our Shearer Lumber mill at Elk City and Idapine Mills at Grangeville.[1] There are no big business mills located within the market area, but there are two big business mills to the north, the Potlatch Corporation sawmill in Lewiston and the Triple-R Forest Products mill at Kamiah (an operation backed financially by Weyerhauser Corporation).

The current small business share for the Nez Perce Market Area is 70 percent. This share, which will be in effect through the end of F.Y. 1990, was established by the 1985 recomputation of shares. Unfortunately, a 70 percent share does not accurately reflect the current timber needs of the Shearer Lumber and Idapine operations. Together, these two mills could easily absorb *all* available volume.

Forest Service data indicates that small business in fact bought 93 percent and harvested 97 percent of the timber within the Nez Perce Market Area during the 18 months ending March 31, 1987. If this trend continues throughout the remainder of the present five-year recomputation period, small business will have purchased and harvested 90 percent or more of the timber originating in this market area.[2]

However, one of the changes made to the Program following the 1984-85 policy review was an 80 percent cap on small business shares. Therefore, under present rules, the share for the Nez Perce market area for fiscal years 1991-1995 will probably be capped at 80 percent.

As I indicated, the small business mills within the Nez Perce Market Area could use all available timber (assuming that the volume sold in the future remains at about the present level). However, the Set-Aside rules prohibit the share from ever exceeding 80 percent. This means that Potlatch and Triple-R can come down into this market area and purchase as much as 20 percent of the timber needed to sustain the small business operations.

If big business should successfully disrupt our timber supply for a long enough period of time, they could force a mill to close. A mill closure would trigger a structural recomputation and likely lead to a drastically reduced small business share, which would hurt the remaining small business mill.

While we are troubled by that scenario, we have made business decisions during the last three years under the assumption that at least the share would rise to 80 percent in 1990. If the proposed policy change is adopted and the Nez Perce share is frozen at 70 percent, then our timber supply will be placed in ever greater jeopardy.

The St. Joe Market Area

The situation within the St. Joe Market Area in north Idaho is much more complex. There are numerous large and small business firms which look to this market area to meet a portion of their raw material needs, including our Bennett Lumber mill at Princeton.

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[1] A small amount of timber from the Nez Perce area also goes south to the Evergreen Forest Products sawmill at New Meadows, but that mill obtains most of its raw material from the Payette National Forest.

[2] More recent harvest data are not available, but small business purchases remain in excess of 85 percent.

Prior to 1965, small business purchased more than 50 percent of the timber sold from the St. Joe Market Area. However, between 1966 and 1970, Potlatch stepped up its federal timber purchases and the small business share established in 1971 was 29 percent. Throughout the 1970s, Potlatch continued to dominate the market area, and small business could not regain the ground it had lost previously. (The share rose to 35 percent in 1976, but fell back to 32 percent in 1980.)

The 1980s, on the other hand, have been particularly traumatic for Potlatch. Between 1981 and 1985, the company greatly reduced its purchases of national forest timber from all of the market areas in north Idaho as a result of decisions to:

- permanently close two of the company's major sawmills, at Spaulding and Potlatch, Idaho (1981);
- temporarily shut-down all Lewiston-area mills for varying periods (1982);
- curtail operations at the Clearwater plywood plant (1983);
- close the Kamiah mill, reduce the operating level of the Lewiston sawmill, and shut down the Lewiston plywood plant indefinitely (1984); and
- cease all Lewiston-area solid wood manufacturing operations for an extended period (1985).

As a result of these actions by Potlatch, and a resurgence of small business during the same time period, a 49 percent share was set in 1985 based upon small business purchases from 1981 to 1985. While a substantial increase from the 29-35 percent share in effect during the previous 15 years, the 49 percent share was really nothing more than a return to the normal competitive situation which existed in this market area prior to 1965.

Mr. Chairman, the conclusion that I would like you to draw from this example is that big business has nothing to fear from the periodic recomputation of small business shares, *so long as they are consistent purchasers of National Forest System timber.*

The 17 percent share increase on the St. Joe market area does not mean that future recomputations will see comparable share increases *unless large business permits such increases.* What it means is that the Set-Aside Program is working as intended. Because shares rise and fall as the timber needs of small business firms change, the share on the St. Joe has been able to return to its natural level. That is one of the reasons why we feel that regular recomputation of small business shares is an essential element of the Set-Aside Program.

A Comparison of Large and Small Companies

Before I conclude, I want to correct some misconceptions about companies such as ours who employ more than 100 but less than 500 people. I am certain that the big business witnesses will tell you that the Set-Aside Program ought to be restructured so that it helps the "truly small and needy firms." They will justify this suggestion by saying that there is no real difference between a Bennett Lumber Products and a Potlatch Corporation, and that we do not need the protection of the Set-Aside Program any longer.

As one who has competed against large businesses for federal timber for many years, I can tell you that there are in fact dramatic differences between our company and the giants of the forest products industry. To illustrate these dissimilarities, I have prepared three charts (attached) which compare the three largest U.S. lumber producers with mills in Idaho and the three largest Set-Aside eligible companies operating within the state.

Whether you compare lumber sold, total sales, or timberland ownership, you can see that we are just not in the same league. Taking away the protection which the Set-Aside Program provides us would be like putting a junior high school hockey team up against the Olympic gold medal winners from the Soviet Union. It would not be a fair fight.

Conclusion

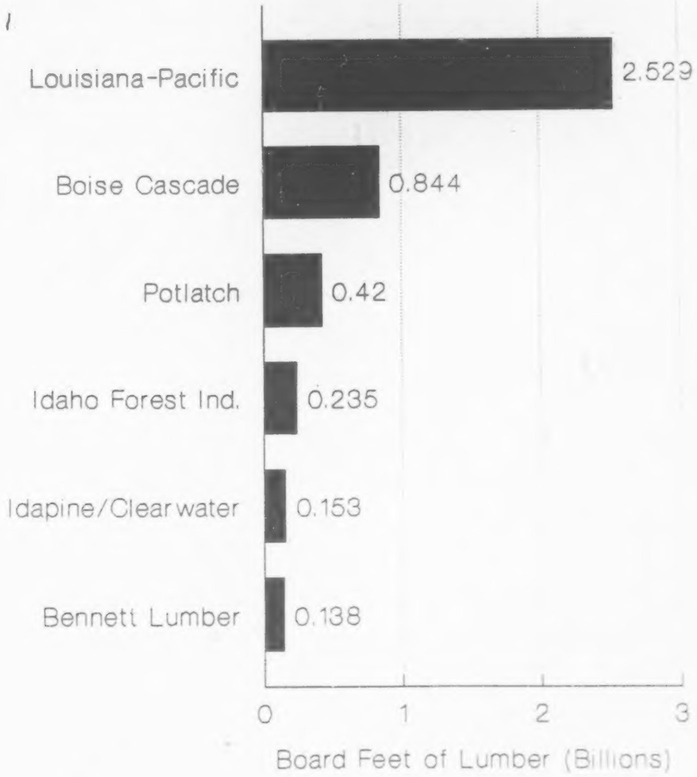
In closing, Mr. Chairman, I want to thank you for holding this hearing and for convincing the Department of Agriculture to postpone its decision on the pending Set-Aside Program revisions. It appears to the small business community that the proposed changes are politically motivated. We hope you can help us convince the Administration to leave the Program alone.

The changes made to the Set-Aside Program in 1985 and other reforms adopted recently by the Forest Service (such as increased deposits and periodic payments) have eliminated the ability of small business to purchase timber just to increase shares. Future small business share increases can only occur if small business demonstrates increased need through greater timber purchases and harvests.

Freezing shares at the present level will limit the growth of existing small businesses and preclude new small business start-ups. Freezing shares will only undermine the Small Business Timber Set-Aside Program and the concept must be rejected.

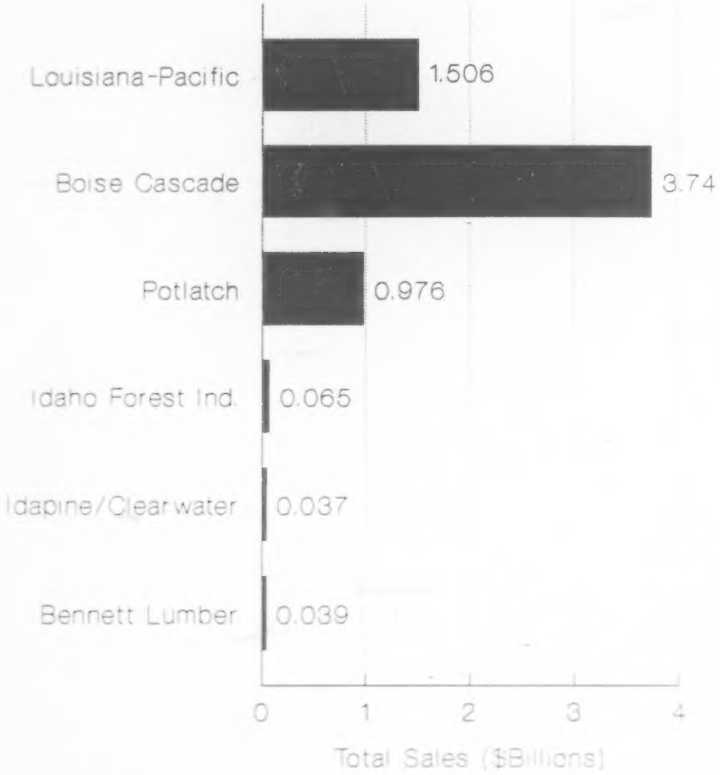
* * *

1986 Lumber Comparison - Idaho
Top Three Big Business Companies v. Top Three Set-Aside Eligible Companies



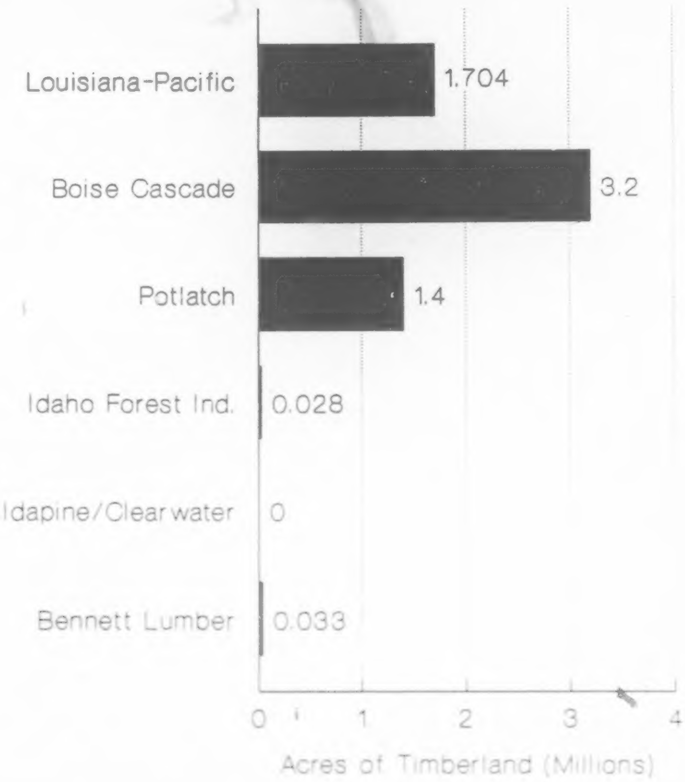
Source: Forest Industries 1987-88 North American Factbook
Note: Not all mills located in Idaho

1986 Sales Comparison - Idaho
Top Three Big Business Companies v.
Top Three Set-Aside Eligible Companies



Sources: Annual Reports & Conversations
Note: Not all mills located in Idaho

1986 Timberland Comparison - Idaho
Top Three Big Business Companies v. Top Three Set-Aside Eligible Companies



Sources: Annual Reports & Conversations
Note: Not all mills located in Idaho

Statement of the Small Business Timber Council

before the

Committee on Small Business
United States Senate

March 2, 1988

Concerning the Small Business Timber Set-Aside Program

The Small Business Timber Council ("SBTC") is an *ad hoc* committee of forest products producers that are eligible for and participate in the Small Business Timber Set-Aside Program. While SBTC members operate sawmills throughout the western states, most of the companies have their home offices in Idaho.

The SBTC has a singular purpose: to preserve an effective Small Business Timber Set-Aside Program. All of the mill owners represented by the SBTC were active participants in the Set-Aside policy review conducted by the Department of Agriculture during the past four years. In fact, many of these men, or their fathers before them, worked closely with the Forest Service to shape the current Set-Aside Program prior to its establishment in 1971.

Mr. Chairman, the small business witnesses testifying at this hearing will discuss specific concerns about the proposed policy changes that are now under consideration by the Administration. I will look at the bigger picture.

Whether the issue of the moment is freezing small business shares, reducing the size standard below the current 500-employee limit, or something else, the fundamental conflict between small and large business over the Set-Aside Program never changes.

The giants of the forest products industry resent the fact that there is a statutory preference for the sale of federal timber to small business firms. These companies will not give up until they have destroyed the Set-Aside Program or rendered it ineffective.

The big companies oppose the Set-Aside Program for three reasons:

First, as I said, they do not accept the Program's philosophical premise. They say it represents government interference in the marketplace.

Second, they are upset because the Program has slowed drastically their merger and aquisition efforts, and has limited greatly their ability to dominate certain highly competitive market areas.

Third, and finally, the Set-Aside Program forces them to purchase a certain volume of federal timber each and every year in order to prevent small business shares from increasing.

From 1970 to 1980, the big companies maintained their purchases and the shares were -- for the most part -- stable. For the past eight years, especially during the recession, many big business mills reduced production, shut down for long periods, or closed permanently. Many big companies also reduced or stopped purchases of federal timber and accelerated harvests of their fee timber. *These operational decisions were made with the knowledge that they would lead to small business share increases.*

Mr. Chairman, the big business decision-makers knew full well what would happen if they cut back or stopped buying federal timber. However, aided and abetted by their hired hands at the Public Timber Purchasers Group, they apparently assumed that they could use political muscle to either eliminate the Set-Aside Program or roll back small business shares.

This campaign against the Set-Aside Program has been partially successful. In Idaho, Montana, and the eastside of Oregon and Washington, for example, the Forest Service provided a mechanism to allow big business to reduce many of the 1985 small business share increases by half.

More recently, big business has convinced the political appointees in the Department of Agriculture to ignore the advice of Forest Service professionals and propose a small business share "freeze". This idea should be rejected, and I offer two reasons to do so.

First, forest products companies with more than 500 employees are doing extremely well, despite all protests to the contrary. Sales and profits are up, and most mills are operating at capacity. With the exception of stock prices, the CEOs are content.

You will hear the large business witnesses at this hearing say that the so-called "big smalls" -- companies with almost 500 employees -- should be kicked out of the Set-Aside Program and forced to go head-to-head with their big business competitors. That would be a disastrous mistake.

The three graphs which are attached to this statement compare the five largest U.S. lumber companies with the five largest set-aside eligible companies, by lumber produced, total sales (all products), and timberland ownership. As you can see, the differences between the giants of the industry and the largest set-aside eligible firms are quite dramatic.

Without the secure raw material supply assured by the Set-Aside Program, the best-run, most-efficient small business producers would, one-by-one, fall prey to the predatory practices of the industry giants. Such a turn of events would reduce competition, stifle innovation, and probably lead to an increase in product prices.

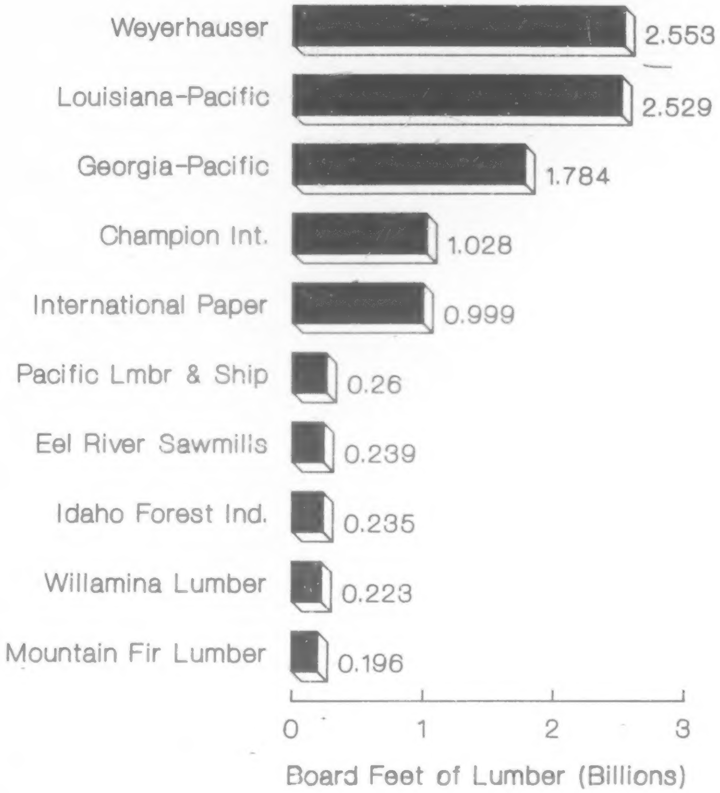
The second reason to reject the proposed share freeze is fairness.

Under the current Set-Aside policy, shares will change whenever a mill with a significant market position changes size classes or ceases operations. The current policy also provides for future share changes if there are new small business market entries or if existing firms expand or reduce their operations. There is no significant difference between these two situations, and the Forest Service understands that fact. That is why the current policy provides for both "regular" and "structural change" share recomputations.

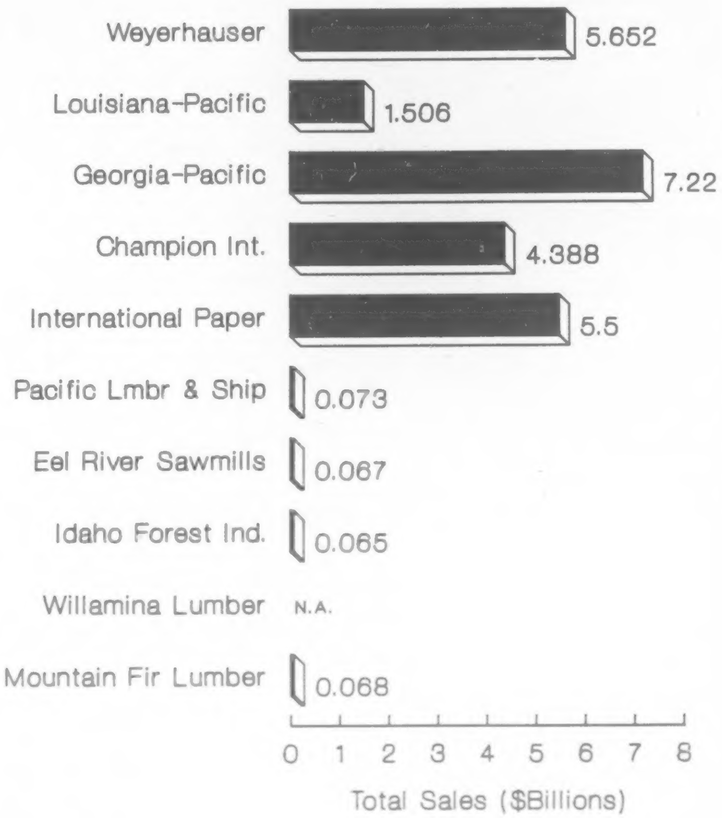
One of the truly essential elements of the Set-Aside Program is the flexibility provided for share changes. Like other industries, the forest products business is changing constantly. If shares do not change as the needs of small business rise or fall, then the Forest Service is, in our opinion, not meeting its statutory mandate to provide small business with a fair proportion of government timber.

In conclusion, Mr. Chairman, let me just say that the members of the Small Business Timber Council think that the Forest Service should stop tinkering with the Set-Aside Program. A fair balance between the needs of large and small companies has already been achieved. The current proposal is unnecessary and will be detrimental to small business.

1986 Lumber Production Comparison
Five Largest U.S. Producers v.
Largest Set-Aside Eligible Producers



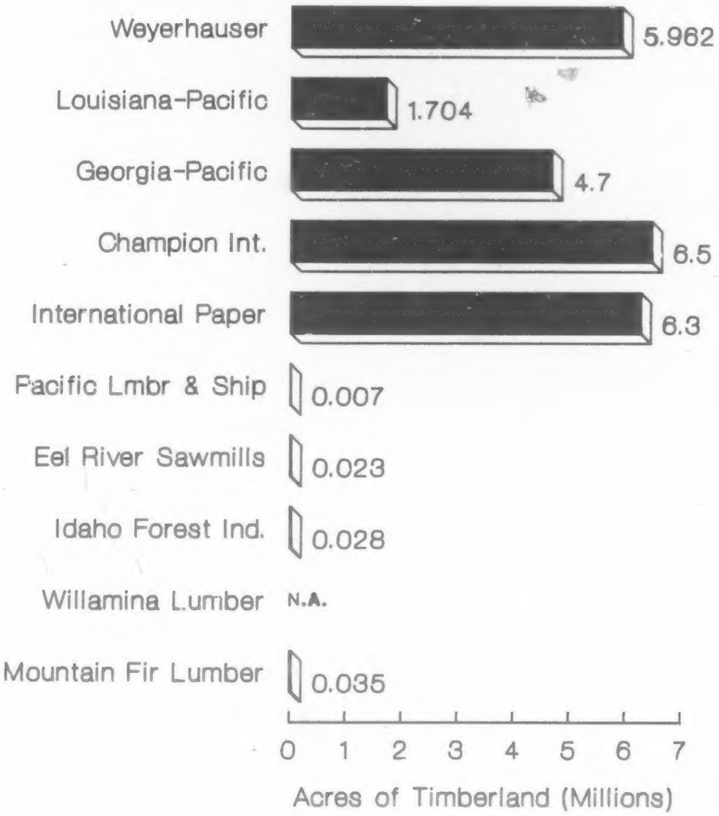
Source: Forest Industries 1987-88 North American Factbook



1986 Sales Comparison
Five Largest Lumber Producers v.
Largest Set-Aside Eligible Companies

Sources: Annual Rpts. and Conversations

1986 Timberland Comparison
Five Largest Lumber Producers v. Largest Set-Aside Eligible Companies



Sources: Annual Rpts. and Conversations

The **Chairman**. Incidentally, your charts are very interesting.

Do those charts reflect your inability to compete against Potlatch and Boise Cascade because of the price? I mean, do they just outbid you?

Mr. **Bennett**. Well, what it does show you is that they have a tremendous resource of their own, their own private holdings. Potlatch is the largest timberland owner in the State of Idaho, private timberland owner, and so they can and have, in fact, for the last several years, cut nothing but private timber, and when they are doing that they can, you know, buying a market share is very insignificant to them. They have got pulp mills, they have everything else, as you well know in Arkansas and Idaho, that they have all kinds of earnings from, that they can offset increased timber prices if they need to.

We do not have that opportunity. We have to depend on public timber, and we have to cut the high priced timber with the low priced timber, but we have to cut the timber. We cannot hold it, and we cannot average it down with our cheap private timber. We just do not have that much.

The **Chairman**. If the Forest Service decides to set aside so many, say, million board feet for a small business set-aside, how do they determine what tracts to set aside, or do they? Obviously some tracts, you know, because of topography, and so on, are more advantageous than others.

Mr. **Bennett**. Well, unfortunately, I do not think they consider that at all times, but what they do is if a shortage occurs and that triggers a program to be initiated, they will go over the next period timber sales program, and they will outline a group of sales, and they will just pick out the sales that equal the volume that needs to be put up to offset that shortage, and that volume may not be to our liking and it may be to our liking. It is not to our advantage in most cases to have to bid on nothing but set-aside sales, because many times we are required to bid on a sale we do not want at all, it is not a good sale for us. But unfortunately, at that point we do bid on it because we have to protect our share.

That is the one way the small business share can decrease, is if a small business set-aside sale is put up and small business does not purchase it, and large business does purchase it, that in effect will help shrink the small business share.

The **Chairman**. And you actually bid on that even though you do not need it and do not want it?

Mr. **Bennett**. Well, we always need timber.

The **Chairman**. In order to try to protect your share?

Mr. **Bennett**. Right. We always need timber. We do not always want—some sales are better for us than others. Let's put it that way. We can cut any sale. Our mills are set up to cut any volume, any size timber, and any species. So we can cut—we prefer some species or some size timber to others but we will bid on those sales to protect our share, yes.

The **Chairman**. How does the price per thousand on small business set-asides compare with the price of comparable timber in open sales?

Mr. Bennett. Well, I would have to say, in the last 7 or 8 years we have not had a set-aside sale because Potlatch, for example, for a period of several years, was not even a bidder.

The Chairman. Did not bid.

Mr. Bennett. Did not bid at all, so we have just not had any set-aside sales since probably in the early 1980's or late 1970's.

The Chairman. That is amazing.

Mr. Thomas, is that true in Mississippi?

Mr. Thomas. Yes, sir, we have found that—and I would rather not call any names, but we have found that some large businesses certainly are not bidding on U.S. Forest Service timber. In preparation for coming here, I spoke to the large of the largest—I did not call their name—and I asked the question what would you like to see changed on the Set-Aside Program? His comment was to me that 6 years ago he told Forest Service to never send him another prospectus because they would never bid on a U.S. Forest Service sale again.

Well, sir, if they are not going to bid on the sale and they are not going to buy the U.S. Forest Service timber, and if small business has got 12½-percent share, I do not see what the fuss is about, sir.

The Chairman. Well, your point is well taken.

I do not know whether that is true in my state or not. I just do not know. I know that in 1985 when they first came out with this proposal, I got calls from a few small business people there, small mills, who were very apprehensive about where this thing was going.

Mr. Thomas. Yes, sir. That was this 1985 thing, and your state is in our lumber organization.

The Chairman. Yes.

Mr. Thomas. You have got Buddy Bean, and so forth, over there. And the concern is in my opinion, simply boils down to one thing, large business simply wants to do entirely away with the Set-Aside Program, and we do not want them to, and that is the concern, sir.

The Chairman. How big a community is your home town?

Mr. Thomas. 500 people, sir.

The Chairman. What is the name of it?

Mr. Thomas. Sugar Lock, MI.

The Chairman. And it has how many people?

Mr. Thomas. 500.

The Chairman. Where is that in Mississippi?

Mr. Thomas. That is 50 miles north of Meridian, sir.

The Chairman. Any other mills there?

Mr. Thomas. Yes, sir, one other hardwood mill.

The Chairman. How many employees do you have?

Mr. Thomas. 130.

The Chairman. How big is the other one?

Mr. Thomas. About 60.

The Chairman. So you all are the community, are you not?

Mr. Thomas. Well, sir——

The Chairman. In a community of 500, you are talking about 200 employees?

Mr. Thomas. I live in a unique community, Mr. Chairman. It has got nothing to do with this, but one of the few little towns that has got more people working in it than live in it, sir.

The CHAIRMAN. That is unique.

Mr. THOMAS. Yes, sir, it is.

The CHAIRMAN. You have got a lot of employees that have got 40 acres out in the country and they raise a few cattle and things like that. Is it that kind of an area?

Mr. THOMAS. Well, sir, we have a brick plant, a glove plant, another saw mill. It is the industry that is there that is the employment. There are over 500 people employed.

The CHAIRMAN. As they used to say, your community is not going to amount to anything, there are too many people there.

Mr. Bennett, how big a town is Princeton?

Mr. BENNETT. Princeton would be less than 100 people, and the main town that supplies our employees is Potlatch, ID, the namesake of the corporation I mentioned earlier that will testify later.

The CHAIRMAN. How many employees do you have?

Mr. BENNETT. We have about, at the Princeton mill we have about 150 employees. We have a total of 325 employees, I think, in our three plants.

As I say, Potlatch is about 875 employee, Princeton is about 100, Elk City is about 200, and of course, the other one is Clarkston, WA, which has got 8,000 or 10,000 people.

The CHAIRMAN. Are your mills fairly modern? Have you invested a lot of money?

Mr. BENNETT. Yes. Our mill in Princeton was updated in 1972 and 1978. It is one of the more modern plants in the country in the Northwest, still is up to speed, and the Clarkston mill is in the process of remodeling. The Elk City mill is an older mill that has been updated regularly and is being updated again right now.

The CHAIRMAN. Can you mill timber as cheaply as Boise Cascade can?

Mr. BENNETT. I think I can knock their pants off.

The CHAIRMAN. Mr. Hayward, how about you?

Mr. HAYWARD. Our membership are mills from 50 to upwards to towards 500 employee.

The CHAIRMAN. How many members do you have?

Mr. HAYWARD. We have 20 mills at this time.

The CHAIRMAN. And they average what size now?

Mr. HAYWARD. They run from 50 to about 500, probably average about 220 to 230 employees would be my guess, and most of them are located in small communities like Cave Junction, Riddle, and those sorts of places. They are all family held, second and third generation mills, totally dependent on Federal timber. Through the recession, these are the mills that survived by updating their plants, by being efficient. We, too, feel we can compete when you are talking about 1-on-1 competition on the value of the resource and converting that, we can compete head on head any time. It is the magnitude of the large business, their financial leverage, their ability to use vast timber resources, inexpensive timber resources that presents the threat to our survival.

If you freeze the shares and allow for just structural change, then it invites what we had before this program where in order to, if they want to expand an area and go to public timber, then they can begin putting the pressure on at the bid table to the point they force the smalls out of business. That is what the program prevents.

The CHAIRMAN. Do larger tracts of timber traditionally bring $1 to $5 more than smaller tracts?

Mr. HAYWARD. Larger sales will generally have a longer contract length and offer more flexibility, and that makes it more valuable.

The CHAIRMAN. Mr. Bennett, are you unionized?

Mr. BENNETT. No.

The CHAIRMAN. Mr. Thomas.

Mr. THOMAS. No, sir.

The CHAIRMAN. Mr. Bennett, what is the average hourly wage in your mills?

Mr. BENNETT. Average hourly wage would probably be somewhere around $12 an hour in our mills, $11 to $12, plus benefits.

The CHAIRMAN. Really.

What would it be at Boise Cascade or Potlatch?

Mr. BENNETT. Theirs is probably slightly higher than ours. Their mills are union, and their wages are slightly higher. I get the wage guides from all the mills, and we stay competitive, but they are usually slightly higher.

The CHAIRMAN. Do you provide any health care benefits for your employees?

Mr. BENNETT. Yes, we do, and retirement program, and everything.

The CHAIRMAN. How old is you company?

Mr. BENNETT. Our company started in 1941.

The CHAIRMAN. 1841?

Mr. BENNETT. 1941. I am second generation. My dad is not that old.

The CHAIRMAN. Mr. Thomas, are you unionized?

Mr. THOMAS. No, sir, we are not.

The CHAIRMAN. How does the average hourly wage run in your plant?

Mr. THOMAS. About $5.35, sir.

The CHAIRMAN. Who is your nearest big competitor there?

Mr. THOMAS. Georgia Pacific, Weyerhaeuser, American Can, Coastal Lumber Co., a lot of them, sir.

The CHAIRMAN. What are their average wages there?

Mr. THOMAS. They would be higher than ours, sir.

The CHAIRMAN. Do you provide health coverage for your workforce?

Mr. THOMAS. Yes, sir, we do.

The CHAIRMAN. I am just asking—we have a whole host of small business concerns. This is not relevant to timber, but since we have been holding hearings on some of the requirements that some people around here want to place on small business. You know, I have the utmost sympathy for working people, and I try to be a good Senator for working people, but I also try to balance my views, particularly with respect to small business. I want to make sure they do not get put out of business in the process.

Mr. THOMAS. Mr. Chairman, back some years ago we had one of our employees go in the hospital, his wife went in and had a baby. We did not have health insurance at that time for our employees. The hospital called me and told me they were not going to let the lady out of the hospital unless I paid the bill. So I said, well, just keep her. [Laughter.]

They let her out that afternoon, but I decided we had better have health insurance at that time.

The CHAIRMAN. Gentlemen, your testimony has all been very good.

I thank you very much for coming to be with us today. It has been very helpful to me personally, and I think it is good for the record and good for the Forest Service to hear your concerns.

Thank you all.

Our last panel, I will ask you to come forward, but I see we have a roll call coming up, so I will just run and vote and be right back and take the second panel, which is Mr. Marlin Clausner, Potlatch Corp., Lewiston, Mr. C.B. Fisher, vice president for timber, Bohemia, Inc., in Eugene, OR, representing Timber Purchasers Group, Mr. James L. Matson, vice president, resource, Kaibab Forest Products Company, Phoenix, AR.

Gentlemen, if you will just relax for a few minutes so that I can run and vote, and I will be right back.

[A brief recess was taken.]

The CHAIRMAN. Mr. Clausner, you are first on my list, so would you please proceed.

STATEMENT OF MARLIN CLAUSNER, RESOURCE MANAGER, POTLATCH CORP., WESTERN DIVISION, LEWISTON, ID

Mr. CLAUSNER. Mr. Chairman, thank you for this opportunity to give you our views on the Small Timber Sale Set-Aside Program. My name is Marlin Clausner, and I am the Resource Manager for Potlatch Corp.'s Wood Products Operations in Idaho. We have been operating saw mills in Idaho for over 60 years.

While we have our own fee timber base in Idaho, much of our timber also comes from the National Forest.

I would like to tell you specifically about our experience with the Set-Aside Program in the Clearwater National Forest in Idaho. That is where our oldest Idaho operation is located. The small business timber share in the Clearwater was historically about 20 percent. That level was quite stable until 1980. Most of the timber that was not bought by small business on the Clearwater was bought by Potlatch.

In 1980 we entered 5 years of unprecedented economic turbulence and hardship in our industry. Those conditions are well known to everyone who has forest products operations in their states.

At our Clearwater operation we struggled through 5 straight years of losses. During that time we made our best effort to hang on and prepare for better days. When the demand for wood products dropped to depression levels and stayed there we cut production accordingly, and as we did, we also reduced our purchase and harvest of Federal timber. We were convinced that this was the proper business decision.

As it turned out, however, it led to a disastrous result for us on the Clearwater under the Set-Aside Program. When the Clearwater small business share came up for its scheduled recomputation in

1986, the small business share jumped from 21 to 61 percent. As 61 percent small business share for the Clearwater has no logical basis. It has no relation to a fair share. It is simply the result of some very unusual circumstances.

If the 61 percent small business share remains at that level on the Clearwater, Potlatch faces some very serious difficulties in supplying wood to its operations.

With this situation in mind, Mr. Chairman, I would like to make several points about the Set-Aside Program and the recent proposals to amend it. This debate today is about how the Forest Service determines the small business guaranteed fair share of Federal timber. The small business fair share calculation has been designed by the Forest Service in a way that allows the small business share to increase. This increase mechanism, however, has a built in ratcheting effect that we believe destroys the integrity of the program. It progressively excludes large business from access to Federal timber. It fails to deliver a fair result, and we think this is proved by our experience on the Clearwater.

However, we cannot agree with the current proposed solution which is to freeze all shares. For us that would mean freezing the Clearwater share at 61 percent. We strongly hope the Forest Service will reject that solution.

Freezing current shares is particularly unfair to large operators in our region in Idaho because it compounds the unfair treatment we received when the June 1985 amended set-aside regulations were adopted.

Let me explain that. The 1985 amended set-aside regulations were adopted by the Forest Service in partial response to the economic turmoil of the early 1980's. The Federal timber sales program was so disrupted by those severe conditions that members of our industry, both large and small, sought relief from the normal rules governing Federal timber sales. Because the Federal timber sales pattern was so disrupted in the early 1980's, the Forest Service proposed in November 1984 to change the rules for calculating the new 1986 small business shares.

Under the old rules, the new 1986 small business shares would have been based on the 1981 to 1985 sales history. The Forest Service proposed instead to calculate the 1986 shares taking into account pre-1980 transactions reflecting more normal conditions.

Well, we thought that approach made a lot of sense, and we assumed that that is what would be done, but by the time the final regulations were published in June 1985, the Forest Service's proposal had been changed so that it would apply only to the west coast region.

For us in the inland region covering Idaho, the Forest Service kept the old rules in place. Therefore, in 1986, small business shares in Idaho were recalculated on the basis of the abnormal 1981 to 1985 conditions.

Potlatch appealed this unequal treatment, but we were turned down. We were told by the Forest Service that we could gain back our access to at least a part of the locked up small business share under the Forest Service's new surplus carryforward rules. These rules say that one-half of any cumulative deficit or surplus in small business purchases during a 5-year computation period will be carried forward to the next computation period. For us on the Clearwater, that means that in theory, the small business share that went from 21 to 61 percent in 1986 could be brought back to an effective rate of 41 percent.

So that is where we find ourselves today. If we buy Federal timber aggressively on the Clearwater over the next 3 years, we can reduce the small business share in accordance with the present rules. However, freezing shares at current levels would not allow us to do that.

In conclusion, while we strongly object to the procedure that took the small business share on the Clearwater from 21 to 61 percent, we object just as much to a solution that locks it in at 61 percent. That approach may be appropriate in those regions where the Forest Service based current shares on the normal, pre-1980 sales history. If the Clearwater were located in one of those regions, the Clearwater small business share would be 21 percent, and we might be happy to have that number frozen. But in fact, we currently have a 61 percent small business share. We need the chance, as the Forest Service has promised us, to bring that share back toward normal.

Thank you, Mr. Chairman, for this opportunity to comment.

The CHAIRMAN. Thank you very much, Mr. Clausner.

Mr. Fisher.

STATEMENT OF C.D. FISHER, CONSULTANT, INDUSTRY AFFAIRS, BOHEMIA, INC., EUGENE, OR, ON BEHALF OF THE PUBLIC TIMBER PURCHASER'S GROUP

Mr. FISHER. Thank you, Mr. Chairman.

I appreciate the opportunity to come here and testify on behalf of the Public Timber Purchaser's Group and specifically Bohemia, Inc.

There are some corrections in my statement there that I would like to make, and also—in fact, the first one is I am Don Fisher, but I am not vice president of timber for Bohemia, I am a consultant for industry affairs for Bohemia.

I have been 37 years in this business, and 2 years ago I decided to take it a little easier, and I retired from Bohemia as vice president and became an industry affairs consultant. I have had experience with the Forest Service and surprisingly enough, I spent 7 years with the Internal Revenue Service as a forester, different private companies, and for the last 20 years, up until 1986, I was the resource and land manager for Bohemia, Inc.

What I would like to do, after hearing the other witnesses here, you realize how complex this program is. I do not think I will go into that, and I will skip that part and go over to pretty much on page 3 of my testimony where it begins to talk about Bohemia. One of the reasons I am doing that is that I believe Bohemia is pretty much typical of what we would call the small bigs in Region 6. And Region 6, as you know, comprises Oregon and Washington.

We are located mainly in the lower part of Willamette Valley, about 100 miles south of Portland. We employ approximately 2,200 people in our plants, both in Oregon and California, and we do have three plants in California. And those plants run from an old growth pine saw mill, to a Douglas fir saw mill that manufactures huge logs, down to a laser controlled small log mill, very modern. We have two of the small long mills.

We also make plywood, we make laminated beams, and we go on to medium-density fiberboards. So we make everything in wood products, except we do not manufacture paper.

I think the things particular about Bohemia and also the small bigs on the west side of Oregon and Washington, or in all of Oregon and Washington is that the mills are located in small towns, and Bohemia's mills are located in little towns in Oregon like Coburg, Drain, Vaughn, Lakeside, Saginaw, Cottage Grove, Culp Creek, and in California, in Lincoln, Rocklin, and Grass Valley areas east of Sacramento.

Now, those are all small towns. Often the Bohemia plant is the major employer and sometimes the only employer of any size in that town with what we call high paid jobs. Our average hourly rate runs just short of $10 an hour, and that is fairly high for that compared to other jobs, service jobs which are much lower. Those are the highest paid jobs, and our employees are mainly the economic lifeblood of those small areas.

It is interesting to note in our plants, and I have here in front of me a recap that is put out monthly, we have 14 wood products plants, and if those were to stand separately—and they are all located separate from one another—they would all qualify for the provisions of the SBA umbrella. Most of them would be in class 2 and class 3. Only one would classify as a class 4, which is 250 to 500 employees.

Many of our employees are long term. They live in these small towns, they have lived there a long time, they like that. We have second and third generation people working in our plants. They like the lifestyle. They are independent. They like the hunting and fishing part of it. But those employees are worried about what is going to happen to them in the future. They feel threatened and rightfully so. If I could direct your attention to the bar graph that we have here, I will explain to you why they feel threatened.

We were able to, without too much trouble, get 2 years of purchase and harvest experience. I heard the Forest Service talking here and someone else about they could only get 18 months of purchase and harvest history. I was able to do that without too much trouble, and had these bar graphs prepared from the actual Forest Service figures on purchase and harvest.[1] What these graphs represent is all of the SBA economic areas in the State of Oregon. These graphs are for the west side of Oregon, these are the east side of Oregon. I have shown this in four ways. 1970, which is the black over here on the left of each one of these 4 color units. There are four time periods for each unit. 1970 is the base year.

The yellow one is 1975. That is the first recomputation. Then skip to 1985, and that is the recent shares that the Forest Service set and now proposes to freeze them at that percentage.

The point I am making is that an allegation has been made here today that we want to destroy the program. We are not out to destroy the program. We are out to keep ourselves from being destroyed, and I think these graphs will show you why. The red color is the 2 years' experience in Region 6 in the State of Oregon in all the SBA economic areas. The red lines are where the small business purchasers shares are through fiscal year 1986 and fiscal year 1987.

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[1] Charts retained in Committee files.

I think it is evident from these graphs that there is no danger of the small business people going out of business. They by far in most of these areas have far overbought where the 1985 share was to be frozen. The 1985 share cannot be reduced for all intents and purposes.

There has only been one reduction in the base share to my experience in the whole State of Oregon, one reduction of a share. There is no way that they can be harmed by that.

All we non-SBA entities are asking for is a freeze of the 1985 shares at that level.

Our employees are worried because of what they see happening. Bohemia is 95 percent-plus dependent on Federal timber for our log supply. We have——

The CHAIRMAN. You are what percentage?

Mr. FISHER. Ninety Five percent-plus.

The CHAIRMAN. Bohemia does not own private lands?

Mr. FISHER. 40,000 acres in Oregon, and it is mostly in young growth, second growth. Most of it is not ready to harvest, and will not be for 10, 15, or 20 years.

We also have a large overhang of pre-January 1, 1982 timber, and that is one of the reasons why Bohemia has not been purchasing Forest Service timber. We are pretty typical of companies our size in western Oregon. We have a large overhang of pre-January 1, 1982 timber, and we have to harvest that up through 1990. For instance, in our fiscal year of fiscal 1988, which ends May 1, we are going to harvest 60 million feet of that old timber at a high, uneconomical price. We knew that 2 or 3 years ago and reduced our Federal timber purchases.

Due to the Forest Service shortening up the term of their sales and the additional financial requirements they put on new sales, we simply could not go out and keep on buying timber the way we had in the past. And one striking area that I might show you here is where we have a saw mill and plywood plant in what is called the Culp Creek area just east of Cottage Grove. That is called the North Umpqua economic area. The share there has been 10 percent since the program began. It went up a little bit here in 1975, and then was frozen at 1985 levels at 10 percent.

Currently, at the end of this second fiscal year 1987, small business purchases have harvested and purchased almost 37 percent. We have a saw mill at the end of that drainage that is about 50 percent dependent on timber from the north Umpqua area. If we cannot buy that timber, obviously we have but one choice with that saw mill, and again, our employees are worried.

Now, one of the reasons we have not been able to buy as I have told you, is that we have been removing our old buyout timber. The last thing we want to do, at almost any cost, is default on a Forest Service timber sale. They are very strict about that.

To return to the hearing issue. The Forest Service is really proposing two changes. They are proposing to freeze the shares, which we support, and I think earlier someone said they should regionalize the regulations. We have no problem with that. There are different conditions that prevail in different areas. We would like to see them freeze the shares in Region 6.

The second one is to provide for a process to allow normal business changes when a plant might change size. A purchaser would go from small to large or large to small, and vice versa. At the current time the size change procedure is cumbersome, and it is almost impossible to make it work. We would like to see that procedure loosened up and made a little more responsive to what goes on, PTPG has made a counterproposal and recommended a counterproposal to the Forest Service that we hope would make that more responsive to a change in business conditions.

Senator, that is the end of my testimony. I would be happy to answer any questions.

[The prepared statement of Mr. Fisher follows:]

STATEMENT OF C. D. FISHER

BOHEMIA, INC.

AND THE PUBLIC TIMBER PURCHASER'S GROUP
BEFORE THE COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

Wednesday, March 2, 1988

Thank you Mr. Chairman for the opportunity to testify on behalf of the Public Timber Purchaser's Group concerning the Small Business Timber Set-aside program.

I am Don Fisher, Vice President for Timber for Bohemia, Inc. I am here today also representing the Public Timber Purchaser's Group. The PTPG is an organization of companies which do not qualify for the Small Business Timber Set-aside Program.

I am honored to be here today Mr. Chairman and thank you for the opportunity to testify regarding the set-aside program. I am accompanied by other witnesses on this panel who will also present testimony regarding changes and regional management in the set-aside program. We are not all members of PTPG. And, although we are all representing companies that are regarded as "large", we will not, as I read the other statements, agreement on every recommendation.

Mr. Chairman, this underscores the complexities of the program and the need for the managers, the Forest Service - to be able to examine possible exceptions to the regulations, on their merits, on a case by case basis. The testimony will also illustrate the need to recognize, and reflect, regional differences in the regulations.

Although the original intent of the program, which is to protect and assist small businesses, is straight forward and direct, the mechanisms to attempt such goals have become quite complex. So we certainly thank and commend the committee, and the committee staff, for taking the time to listen and consider the varied points of view.

I would like to emphasize that the Public Timber Purchaser's Group is not here in opposition to the Small Business Tiber Set-Aside program. The Small Business Act was founded on the principle that the Government should "aid and assist" the interests of small business concerns to "preserve free competition enterprise." The purpose of the Forest Service Timber Set-Aside program, as we understand it, is to ensure that the small timber companies have the opportunity to purchase a "fair proportion of the sales of the national forest timber." We have no quarrel with that, Mr. Chairman .

We would like to see a program that is fair and equitable and allow the Forest Service management flexibility while maintaining protection where it is needed.

It is most important to note that the proposed revisions are the only changes of any significance ever proposed to this, program; a program that has been in effect since 1971 - 17 years! 17 years is a long time for any regulatory program to remain basically unchanged. It is especially long when that program reserves a large share of a valuable public asset, Forest Service timber, for a select group of private entrepreneurs. Over the years it has become evident that the TSSP is not responsive to national and local economic changes or to normal business changes in the wood products industry. However, meetings and negotiations within the industry and with the Forest Service have resulted in these proposed regulations. We are in agreement with the new proposals of the Department, but additional adjustments are necessary to make those changes truly effective.

There are those who would characterize this issue as a life and death struggle between David and Goliath. The truth is that there are lot of little guys out there struggling to make a living in the forest products industry. Some of them work for companies that are classified as "large" and therefore do not qualify for the set-aside. Additionally, there are a lot of very small family businesses that also serve the mills that are classified as "large." And when a mill closes, regardless of the size of the company that owns it, these small businesses and their communities get hurt.

I would like to read very briefly from the statement of Dan Smith who testified at the House Small Business hearings last week. He was unable to come back again this week, but what he said is very important.

> "My name is Daniel Smith. I am a self-employed businessman living in Quincy, California, a small community in the Sierra Nevada Mountains."
>
> "I own an accounting business providing bookkeeping and tax services. The majority of my work is with local family-owned logging companies."
>
> "They are all small businesses, as defined in the SBA regulations. The smallest company employs twelve. THe largest employs 140 people, and this company is the largest SBA employer in our community."
>
> "I represent small business that the SBA program is harmful to. It seems ironic that all our small businesses are being hurt by a program intended to help us."

"We are all opposed to any increase of the SBA share on the Plumas National Forest. The reason is simple; we work for large businesses. Any timber you take away from large mills is the same as taking work away from our small local loggers. The only SBA mill in our community is very small, provides limited work, and has historically hired loggers from outside our community."

"If more timber is set aside for SBA purchasers, then our small loggers will have to lay off employees. This will effect the economic structure of our local industry and our community."

The same situation is found in other areas."Bohemia, Inc., for example employs 2,200 people in individual wood products plants in Oregon and California. Bohemia's plants range from a basic sawmill, to laser beam controlled small log sawmills, plywood plants,and medium density fiberboard plant, to a laminated beam facility."

It is interesting, Mr. Chairman, that only one of these plants standing alone exceeds the SBA Class 4 (250-499 employees). The balance of the 14 plants would all be Class 2 (26-100 employees) or Class 3 (101-250 employees)

Most of the plants are the single largest, and often the only industrial employer in the small towns where they are located. In Oregon small towns such as Coburg, Vaughn, Saginaw, Cottage Grove, Culp Creek, Drain and Lakeside are entirely dependent on Bohemia for the higher pay jobs. In California the small towns of Grass Valley, Lincoln and Rocklin are the plant locations.

Of course there are some large companies in the industry, but few of them buy any substantial amount of public timber. The great majority of the members of the Public Timber Purchaser's Group and other so called "large" companies, are in reality not much bigger than some companies regarded in the regulations as "small." Almost all of them are still family owned, and some are actually smaller then the "smalls" when you separate them from the non-timber operation of the parent company. In reality, the size of the parent company has little real meaning out there in the small towns. Each mill has to operate independently and has to be profitable, or it gets shut down.

But the structure of the timber set-aside program gives a guarantee to some mills and leaves the others in a very precarious position. The greatest irony is that the truly small operations, the companies with under 100 employees who qualify for the set-aside are not getting the benefits of the program. This is what the General Accounting Office found in their extensive one-year investigation in 1979. They stated:

> "Our analysis confirmed that companies with less than 100 employees, and especially those with 25 or few, have used the set-aside program less than companies with more than 100 employees. Specifically, the analysis showed the larger companies were able to obtain a greater proportion of their public timber purchases through set-aside sales than the smaller firms. This happened because the smaller size companies did not compete as successfully for set-aside sales, as they did for open sales. We also found that logging firms, in comparison to firms that mill timber, had a particularly difficult time competing for set-aside sales.
>
> Although firms with less than 100 employees used the set-aside program less than firms with over 100 employees, an earlier study suggested that the small firms may need the set-aside program most because they re the firms that most often fail.

The same is even more true today. Looking at the amount of timber sold in Region 6 by class, or size, of company for 1983 through 1987, by back-of-the-envelope figures show that 10% of the small companies account for 62% of the small company purchases. These are the companies often referred to as "large-smalls." Most are between 300 to 500 employees.

We have this phenomenon of the dominant "large-small" because we have created an artificial barrier to continued growth. The peculiar mechanisms of the program - especially the reality of ever increasing shares, almost forces these companies to stay under the 500 employee limit. There are little or no incentive to "go large", and their investments are certainly not going to be in labor-intensive operations. They are not encouraged to hire people or create jobs.

This bar graph dramatically illustrates the trend in market shares and the consequences of the ratchet effect. The small business share keeps increasing -- by present regulations it can only go up, not down -- and if we project to 1991, the share goes up to the ceiling of 80% in many places. Because this is happening, we are displacing companies that do not qualify for the program, -- and, in even greater amounts we are eliminating competition which brings more revenue to the treasury. If we don't stabilize the shares now, and, instead, wait until 1991-- it will be too late.

You have been told by earlier witnesses that the small business share has increased because the larger companies haven't participated in the sales. That is, in part, true, and I would very much like to tell you why.

The major reason is the effect of the Timber Contract Modification and Buyout program. This government program allowed companies to"buy out" a portion of their high priced pre-1982 timber sales. Because of the way the program was structured, a disproportionate share of the benefits of the program accrued to small business.

Using timber sales volume on hand at 1/1/82 in Region 6 as a basis, small businesses bought out of 45 percent of their volume while large businesses were allowed to buy out of only 32 percent of theirs. Between 1/1/82 and 7/1/867 small business then defaulted on 12 percent of the original sales volume and operated 32 percent. During the same period, large business defaulted only 2 percent of their volume and operated 40 percent. Small business currently retains only 11 percent of the original volume while large business has 26 percent of theirs - over twice as much!

To summarize, the small business community in Region 6 has either bought out or defaulted 56 percent of their pre-1982 timber sales and operated or retained 44 percent. Large business, on the other hand, bought out or defaulted only 34 percent and retained or operated nearly half again as much of their pre-1982 sales as will have the small business community.

Mr. Chairman, the program is very complex - and it probably always will be. But we believe the Forest Service has attempted to correct some of the inequities:

1. The proposals establish semi-permanent base shares for each marketing area at the level set for 1986-1990. Recomputation of base shares every five years is eliminated.

2. They recognize size status change when the company has purchased a minimum of 5% in the previous five years period. This was previously a 10% threshold.

3. The proposals also require a review of the set-aside program in 1991 to evaluate the effect of the policy changes.

By stabilizing the base shares, the proposals end the guarantee of the upward ratcheting of the base shares as a consequence of scheduled recomputations every five years.

However, the proposal fails to provide a prompt change in the base share. In 1979 the GAO at that time stated "...procedures for recomputing the small business share should be revised to reflect promptly the structural changes among timber purchasers."

We sincerely believe that there are some additional changes that are definitely needed. For example, there is a problem with the structural change mechanism. To make it simple, prompt, and workable, as is intended, the program should place a company's purchase history, regardless of whether it is going from small to large or large to small, into "suspense" and then let market forces determine a fair share percentage over a three year period. In this way a company is not so severally penalized if it breaks the 500 barrier and dares to become "large". The remaining small companies continue to receive their share percentage guarantee.

Again, Mr. Chairman, thank you for the opportunity to testify at these hearings. We believe the USFS proposals are a step in the right direction - to make the program workable. They will help the Forest Service in their effort for more efficiency, for better environmental protection,and for the overall management of the forest for timber, recreation, and wildlife. However, we believe that other technical changes are necessary, and possible, without adversely affecting small business. We believe the Forest Service should be given the flexibility to manage and make adjustments in consideration of the different regions of the country, and in some cases, even local consideration. Most of all, the situation is critical and action is needed now. It isn't something that can just be ignored or forgotten. There are too many people whose lives are dependent on a fair and equitable program.

The CHAIRMAN. Thank you very much.

Mr. Matson.

STATEMENT OF JAMES L. MATSON, VICE PRESIDENT, RESOURCES, KAIBAB FOREST PRODUCTS CO.

Mr. MATSON. Thank you, Mr. Chairman.

I am Jim Matson with Kaibab Forest Products Co. from Phoenix, AR. I appreciate the opportunity to testify before this Committee. I would like to summarize the major points contained in my statement.

The magnitude of the concerns about Forest Service's proposed timber set-aside policy changes would indicate that your Committee's involvement is very much needed. The committee staff has been very effective in preparing for this hearing, and has given us time to prepare as well.

The issues regarding small business timber set-aside sales are quite complex and difficult to resolve, but first, let me say that we are not opposed to the purposes of the Timber Set-Aside Program. We do believe, however, that there are certain regional differences existing in the structure, distribution and size of the companies that purchase National Forest timber in the Southwest.

Before you now is an opportunity to consider these regional differences in the Forest Service's proposed timber set-aside policy changes. In fact, as you know, the Forest Service policy changes being considered here today would apply to the West only. I believe that the new procedural changes are well founded and that the Forest Service should be given the latitude to implement the new program elements.

The administration of the small business timber program in the Southwest could be further improved by the institution of an experimental program that recognizes differences in the company size, location of plants in relation to available National Forest timber in Arizona, New Mexico, and Utah. Kaibab Forest Products Co. in reality is a small business. We employ 431 people. We do not, however, quality for the Small Business Timber Set-Aside Program. We are an independent operating company of Kaibab Industries. Our parent company and its six operating companies employ 1,243 people. Our forest products company operates three saw mills at Fredonia, AR, Panquitch, UT, and Payson, AR. Each of these facilities is located in rural communities that are 100 percent dependent upon National Forest timber for log supply.

As a general rule, and the Forest Service would confirm this, National Forest timber in the Southwest is tributary to rural communities having only one saw mill. The Pacific Northwest, the west coast, the northern Rocky Mountain regions usually have several mills, large or small, in a community or group of communities that are tributary to a given ranger district or National Forest. In the Southwest, our rural towns have only one saw mill company drawing timber from a given ranger district or National Forest. These rural and small communities and corresponding saw mills are very vulnerable to dislocations in National Forest timber.

Communities containing SBA qualified firms can rely upon the Timber Set-Aside Program to assist in obtaining adequate timber supplies. On the other hand, communities having other than SBA qualified saw mills are not as fortunate. The Forest Service has listed communities that are dependent upon National Forest for economic stability. These dependent communities in the Southwest benefit by the presence of the local saw mill firm, regardless of company size.

Mr. Chairman, in considering the most effective management approach to the Timber Set-Aside Program, it appears that timber-dependent communities in the Southwest could be managed in a manner similar to the revised Timber Set-Aside Program. I would urge this Committee to recommend to the Forest Service the implementation on an experimental basis in the Southwest and perhaps a three-State area such as Arizona, New Mexico, and Utah, of a community stability Timber Set-Aside Program. It could be administered using the same rules and regulations as contained in the new policy changes and as applied to the existing Small Business Timber Set-Aside Program.

I suggest that in order to qualify, the community should be timber-dependent and that the community's only saw mill have fewer than a specified number of total employees.

An experimental or trial community stability Timber Set-Aside Program in the three-State area would then provide all parties, large and small, along with Forest Service involvement, the opportunity in 1991 to evaluate the appropriateness and the need for continuing such a program. There are, as you all know, many small businesses who exist due to the presence of a local saw mill firm, small firms that supply goods and services to a town's only saw mill makes a significant contribution to the area's local economy.

A timber supply problem affecting these communities is sure to impact the small firms and local businesses.

It is my hope that this Committee will be able to assist in helping to ensure that all parties in the timber-dependent communities are given an equal opportunity to grow and prosper.

In summary, the proposed Forest Service policy changes are a good approach to maintaining fair and equitable programs for protecting small businesses reflecting real life conditions. We feel that these real life conditions deserve recognition in the Southwest as well.

Thank you for this opportunity to appear here today. I will be happy to respond to any questions or provide any additional information.

[The prepared statement of Mr. Matson follows:]

STATEMENT FOR THE RECORD
OF
JAMES L. MATSON
VICE PRESIDENT, RESOURCES
KAIBAB FOREST PRODUCTS COMPANY

BEFORE THE
SMALL BUSINESS COMMITTEE
OF THE
UNITED STATES SENATE

MARCH 2, 1988

Mr. Chairman, I appreciate the opportunity to testify before the Small Business Committee, regarding the Forest Service's proposed SBA policy changes for the Small Business Timber Set-Aside Program. This committee should be commended for its efforts in examining this issue at this time, and for soliciting differing points of view. I would also like to thank the committee staff, who have been very helpful in assisting me and other witnesses in preparing for these hearings.

The issues are complex and at times difficult to resolve. I hope that my testimony here will contribute to the processes that you are currently undertaking. Recognizing the time constraints on this committee my statement will be brief.

First, let me say that Kaibab Forest Products Company is not opposed to the purposes of the timber set-aside program. We do believe, however, that there are certain regional differences existing in the structure, distribution and sizes of companies that purchase National Forest timber sales in the Southwest. These regional differences need to be considered and addressed in the SBA timber set-aside program as well. In fact, as you know, the Forest Service policy changes being considered here today would apply to the West only. We believe that these procedural changes are well-founded and that the Forest Service should be given the latitude to implement the new program elements of structural change, recomputation, log export reporting,and program view in 1991. These policy changes, as applied, should further the process of ensuring that small timber businesses have the opportunity to purchase a fair proportion of National Forest timber sales.

We strongly believe, and recommend,that the administration of the small business timber set-aside program could be further improved by recognizing that regional differences exist in the competition for National Forest timber in the Southwest today.

Kaibab Forest Products Company, in reality, is a small business of 431 people. We do not, however, qualify for the small business timber set-aside program. We are an independent operating company of Kaibab Industries. Kaibab Industries and it's six operating companies employs 1,243 people. Our Forest Products Company operates three sawmills located at Fredonia and Payson, Arizona, and Panguitch, Utah. Each of these mills, and the communities that they are located in, are completely dependent upon National Forest timber for their raw material supply.

As a general rule, National Forest Timber in the Southwest is tributary to rural communities having only one sawmill. Each of these communities is located near a National Forest or differing Ranger Districts. The Northwest, on the other hand, usually has several mills, large and small in a community, or several communities, that are tributary to a given Ranger District or National Forest. In the Southwest our rural towns will generally have either a small business sawmill operator or a large sawmill company in town. This means that our Southwestern communities are directly vulnerable to changes or dislocations in timber supply from the National Forests. The small business timber set-aside program protects small sawmill businesses but fails to recognize the needs of communities the Forest Service has recognized as being dependent on that single mill. These are communities that have been designated by the Forest Service as "Dependent Communities." I would like to emphasize to this Subcommittee that our Southwestern rural communities are very dependent upon their sawmills regardless of SBA size classification.

Mr. Chairman, in considering the most effective management approach of the small business timber set-aside program, it appears that timber dependent communities in the Southwest could be managed in a manner similar to the set-aside program. I would urge this Committee to recommend to the U.S. Forest Service the implementation, on a trial basis, for the southwest, perhaps a three state area such as Arizona,New Mexico, and Utah; of a community stability timber set-aside program. It could be administered using the same rules and regulations as contained in the new policy changes and as applied to small business timber set-aside program. Rural and timber dependent communities would then qualify for SBA timber set-aside treatment, if they meet certain tests, in order to ensure an opportunity to purchase a fair proportion of National Forest timber. I suggest that in order to qualify a community should be listed by the Forest Service as "dependent" with a designated number of people employed in the forest products business. An experimental or trial community stability timber set-aside program in the three state area would then provide all parties, large and small, along with agency participation, the opportunity in 1991 to evaluate the appropriateness and need for this kind of opportunity program.

There are, as you know, many small businesses who are dependent upon and contribute to the success of their local timber firm. The effects of timber shortage on any communities economy is sure to impact the small firms that supply goods and services to the town's only sawmill. There is a need for this Committee to consider these factors and to ensure that all small businesses timber dependent communities and towns are given an equal opportunity to prosper; particularly small rural business concerns.

In summary, the proposed Forest Service policy changes are a good approach to maintaining fair and equitable programs for protecting small business and reflect "real life" conditions. We feel these "real life" conditions deserve recognition in the Southwest as well.

Our thanks and appreciation, again to this Subcommittee and it's staff for the opportunity to testify here today. I would be happy to answer whatever questions the committee might have - or to provide additional information to support your efforts.

The CHAIRMAN. Thank you very much, Mr. Matson.

Mr. Matson, you fall into an interesting category because you have a small enough number of employees that you would qualify except you have other interests besides timber and saw mills, so you really do fall into a strange category.

And then there is Bohemia which is in the small big category, but with not nearly enough private timber to be a player with the big boys. And these are interesting situations.

I find the regional concept and the dependent community concept an interesting one. I do not know whether the Forest Service would say that incorporating those concepts would be an administrative nightmare or not. I do not see why it should be.

You heard Mr. Leonard testify that they do indeed keep a community dependent list.

Mr. MATSON. That is correct.

The CHAIRMAN. So I do not know why they might not be able to make an exception for those communities. Obviously, I think anybody with any compassion at all would favor that.

You know, I find this whole issue pretty troubling. I am normally a very strong champion of small business set-asides and the right of small business to at least not get squeezed out of the marketplace by the big boys, and that is the reason this Timber Set-Aside Program was begun in the first place. And you have this sort of unique situation where the big boys, when things got bad in 1980, they could continue to float and stay in the black by harvesting their own timber, and the small business people had no choice but to just tough it out, and they had to be extremely competitive to survive. Mills closed all over my State during that period of time, as I am sure they did in Idaho and wherever.

The ones that survived, of course, were using an inordinate amount of Forest Service timber while the Potlatches and the Weyerhaeusers and IP's and so on were harvesting their own timber. And I can certainly understand, Mr. Clausner, your point, and you make it very well.

Mr. CLAUSNER. Mr. Chairman, if I could make one comment.

The CHAIRMAN. Sure.

Mr. CLAUSNER. On the issue of the companies being able to harvest 100 percent of their own timber that has been brought up a couple of times this afternoon. At one time that may have been true for Potlatch—in the 1970's or up until the late 1970's—during a period of time when we were trying to harvest what we call an overstory removal program which, without getting into all the details of it, is basically a situation where you have a lot of mature, about to become decayed timber, with fresh undergrowth coming up underneath, so you want to get in and log it.

We had that situation in the 1970's and we probably had the ability to swing back and forth, as has been described, but I want to guarantee you that since the early 1980s our fee harvest has been on the decline, and when we have cut back production, we have cut back fee as well as paid as cut.

The CHAIRMAN. What do you think about that part of the new proposal where you tak[illegible]to consideration both sales and harvest in doing the recomputation?

Mr. **Fisher**. Senator, that is a real issue where the large timber volumes are located in western Oregon. There were tremendous purchases by large and small. There were several small business purchasers that had far in excess of any inventory that we ever dreamt of. I can think of one that had a billion feet under inventory at one time.

The **Chairman**. A billion feet?

Mr. **Fisher**. A billion feet. That purchaser declared bankruptcy and got out of something like 700 million feet of that, turned it back to the Forest Service.

The **Chairman**. Well, you know, we passed a bill here that forgave a lot of those contracts, too, where they were allowed to give it back.

Mr. **Fisher**. Well, as that was mentioned earlier, it was limited to 200 million feet or 55 percent of your inventory.

The **Chairman**. Nobody could stand a billion feet of inventory back then.

Mr. **Fisher**. We think that the purchase and harvest brings a sense of fairness and equity into the business, but we also think the Forest Service did not go far enough, and that is why—at least for us to bring a real sense of fairness and equity into it, and that is why we have requested the Forest Service, and others have, too, to make some additional changes.

I think one of the changes is right there, and if I could just show you one more chart.

The **Chairman**. That is an excellent chart, Mr. Fisher.

Mr. **Fisher**. This one is even more startling. This is the State of Washington. We have no plants in Washington, but since I was doing Region 6, I decided to do Washington at the same time. Here again, the purchase and harvest shares really stand out like a sore thumb, a red thumb that is.

Now, it is true, in 1985 the Forest Service put a ceiling of 80 percent on shares. Although this is the history, the share could go no farther than 80 percent, which is right here.

The **Chairman**. Let me ask a question. For example, if you do a—in this computation in 1985 which covers the 1981–85 period, you come up with a share, we will say, of 60 percent. You come up with 60-percent requirement for small business share. Now, does that means the Forest Service has to set aside 60 percent of the timber in that forest?

Mr. **Fisher**. No.

The **Chairman**. What does it mean?

Mr. **Fisher**. Senator, there is a misconception there. Actually, the small business share may be 60 percent, but if they do not buy that share every 6 months, then it is recomputed and small business timber sale set-asides take place.

The **Chairman**. Well, my next question is, what happens to the timber if it does not go to small business, if they do not bid on it and get it.

Mr. **Fisher**. In the following 6 month period they are made whole. The deficit plus their fair share is set aside in the next 6 month period and the share is brought back up to the 60 percent level. That is what we mean about the ratchet effect. It can go up, but can never go down because of the 6 months ratchet effect.

The CHAIRMAN. The question I intended to ask is how could the share ever go down? For example, if you have a 60 percent share, and small business takes that 60 percent during that 5 year period, they are certainly going to get 60 percent the next 5 years, are they not?

Mr. FISHER. Yes, they would.

The CHAIRMAN. It cannot go down as long as they take their allocable share, is that correct?

Mr. FISHER. That is right, and if there is a defect it is corrected every 6 months.

[Pause.]

The CHAIRMAN. Staff was just telling me, and I do not know whether I can repeat this precisely or not, but if big business buys a small business and that small business has a 5 percent share, is that then taken out of the equation? Is that 60 percent that I alluded to a while ago in a hypothetical case then reduced to 55 percent? Is that the way that works?

Mr. FISHER. No, sir, not at the present time, and that is one of the provisions the Forest Service is recommending.

The CHAIRMAN. Explain that to me now.

Mr. FISHER. What the Forest Service is saying now is that if a purchaser in an economic area ceases production, and I forget what time period it is, or sells out or for some reason, goes out of business, they propose to change that share over, I believe it is a 5-year period. That would only happen then. They would change it over a 5-year period.

What we are saying is that the proposed procedure is unresponsive. If that happens, we want the Forest Service to put their share into limbo for 3 years and then see who buys that share. At the end of that 3-year period, that would become the SBA share.

The CHAIRMAN. I see. I did not realize that that was one of their proposals.

Mr. FISHER. That is one of their proposals, and that is what we are saying, there should be some mechanism. If someone wants to grow, as they said here, they cannot get out from underneath that umbrella right now; they have to stay there.

The CHAIRMAN. Obviously, the intent of the Forest Service in the three 6 months study periods, the purpose of that is to bring a better balance between big and small business.

Mr. FISHER. Right.

The CHAIRMAN. Because right now they are stuck with an inordinate amount of small business share because of what we talked about a moment ago, the big boys just simply were not bidding in the 1981-85 period, is that correct?

Mr. FISHER. Well, not really. They really took the, if I am correct in this, the Forest Service really took the 1980 share and brought that forward to 1985 and froze it. I believe I am right on that.

And one of the reasons for doing that was the chaos was brought about from 1978 to 1982 when purchasers bought large volumes of timber, and a huge volume of that timber was not harvested, it had the tendency to really dislocated shares because of that. As I mentioned, the small purchaser that bought almost a billion feet. Those resulted in distortions of what would be the historic shares.

And I believe, without reading the Forest Service's mind, that they were saying let's try to bring some calm into this chaos that has resulted from the recession in the early 1980s. I think that is what they are doing.

The CHAIRMAN. Mr. Fisher, how many mills does Bohemia have?

Mr. FISHER. Fourteen installations. Those run from saw mills, plywood plants, and so on.

The CHAIRMAN. How many forests do you buy timber off of?

Mr. FISHER. We buy timber off of the Siuslaw Forest, Willamette, Umpqua, three forests in Oregon, and two forests in California.

The CHAIRMAN. And your testimony is that you are going to have a very tough time keeping those mills busy unless you get some relief in your ability to purchase Forest Service timber, is that correct?

Mr. FISHER. Currently, Senator, we have that ability, but according to those charts—and those are Forest Service figures—if that were to continue and another recomputation made, you would see most of those shares apparently approach the 80 percent level. And we know from our past history we cannot operate some of those mills if we have to depend on ability to purchase possibly a share of the remaining 20 percent.

The CHAIRMAN. Mr. Clausner, tell me about Potlatch. What is going to be the effect on Potlatch if the Forest Service, for example, sticks with its historical allocation?

Mr. CLAUSNER. If it sticks with the historical allocation, Mr. Chairman, right now in the current period, the 1986 to 1990 period, the small business share in the Clearwater is about 43 percent, which is an indicator to us that the 61 percent is not representative of real life.

The CHAIRMAN. In your testimony, as I recall, you gave some formula there where that you could live with, the 41 percent formula, is that right?

Mr. CLAUSNER. Well, we think that—I am not sure what anyone can say is a fair share, but we feel that somewhere in the range of I will say 32 to 42 percent is probably pretty representative of what we would consider a fair share, and the important——

The CHAIRMAN. Do you think the small mills can also survive with that?

Mr. CLAUSNER. Yes, sir, I do.

The CHAIRMAN. Well, gentlemen, it is a knotty problem. I do not have the answer, but the comment period is still open, so if there is anybody that has not commented that wants to, now is the time to speak or forever after hold your peace.

The small business people, as you know, feel very strongly that the program should not be subject to any further changes. They have a tough enough time competing anyway, and feel the changes have been proposed because this time the program just turned out to the disadvantage of the big boys, and they also feel, I think, that if the tables were reversed, they would not get even a hearing on it.

But in any event, your testimony has all been very helpful to me. There are still some aspects of the program that I want to study further. I have never been an expert on this small business set-aside. But I know a lot more now than I did before this hearing started.

But perhaps we can reach some middle ground that will satisfy everybody. I hope so.

Thank you again for coming.

We will stand in recess until the call of the Chair.

[Whereupon, at 4:05 p.m., the Committee recessed subject to the call of the Chair.]

APPENDIX

MARK O. HATFIELD
OREGON

United States Senate
WASHINGTON, DC

March 2, 1988

The Honorable Dale Bumpers
Chairman
Senate Committee on Small Business
United States Senate
Washington, D.C. 20510

Dear Dale:

Enclosed please find a copy of a letter that Senator Packwood, Congressman AuCoin, Congressman DeFazio, and I sent to F. Dale Robertson, Chief of the Forest Service, concerning the Small Business timber set-aside program. I am requesting that a copy of this letter be included in the official transcript of today's hearing.

As the letter to Mr. Robertson indicates, the Forest Service's most recently proposed changes to the program reopen several issues that were thought to have been resolved in 1985. Accordingly, it would seem to be appropriate to wait until the current rules come up for review in 1990 before any further changes to the program are considered.

Thank you for your attention to this matter.

Kind regards.

Sincerely,

Mark O. Hatfield
United States Senator

MOH:mw

Congreſs of the United States
House of Representatives
Washington, D.C. 20515

October 23, 1987

F. Dale Robertson, Chief
U.S. Forest Service
P.O. Box 96090
Washington, D.C. 20013-6090

Dear Dale:

On September 25, you issued a notice of proposed policy in the Federal Register which would make significant changes in the Small Business Administration program. These rules are of major concern to all segments of the wood products industry in the Northwest and may affect future operations in many areas.

The decision to change the program and to freeze the small business shares requires great study. While we understand that the terms of the 1985 lawsuit settlement compelled the Forest Service to reopen comment on the 1985 final policy, we believe that your current proposal unnecessarily reopens certain policy matters that we thought were resolved in 1985.

The Forest Service has examined, on a forest-by-forest basis, the sale history for the first 18 months under the current regulations. Because the current regulations have been in place for more than two years now, the Forest Service should examine the sale record for these 24 months. We ask you to report to us your findings on this 24-month review.

In addition, we urge you to extend the comment period on the notice of proposed policy to at least 90 days, to give interested parties a realistic time frame to examine and comment on the proposals.

We look forward to hearing from you at your earliest convenience, and we appreciate the opportunity to continue to work with you on this important issue.

Sincerely,

MARK O. HATFIELD
U.S. Senator

Bob Packwood
BOB PACKWOOD
U.S. Senator

Les AuCoin
LES AuCOIN
Member of Congress

Pete DeFazio
PETER DeFAZIO
Member of Congress

SENATOR BOB PACKWOOD'S STATEMENT ON THE SMALL BUSINESS TIMBER SET-ASIDE PROGRAM

Mr. Chairman, my commitment to the Small Business Timber Set Aside Program is longstanding. Since entering the Senate in 1968, I have been a strong supporter of this program important to maintaining a viable small business timber industry for Oregon. In fact, as a past member of this very Committee, I chaired oversight hearings on small business timber set-asides nearly ten years ago. And, today, we are discussing many of the same issues we talked about then.

The timber set aside program, operated jointly by the U.S. Forest Service and the Small Business Administration, was established to ensure that small timber interests receive a fair portion of Forest Service timber sales. The program should be operated in a fair and equitable manner. The intent of the program is certainly not to run large timber interests out of the market in national forests. Oregon's timber market remains viable because we have a mix of large and small timber companies operating in Oregon's national forests.

I am deeply interested in the Forest Service's proposed changes to the timber set aside program.

The Forest Service is proposing to freeze the small business share of the market at the 1986-1990 level. There is growing concern over allegations that the small business share of the market is increasing and will eventually take over certain timber market areas. I think it is premature to recommend substantial changes to the program prior to having the Forest Service and the SBA thoroughly review trends in large and small business timber purchases by individual timber market areas. This review should occur only after the current program has had an opportunity to work under the changes instituted in 1985. We must have the facts of the situation before promulgating new regulations. There is no need to rush to judgement on a program that works.

I am also concerned about the manner in which these proposed regulations have been developed. The timber set aside program is jointly operated by the Forest Service and the Small Business Administration. I understand that the Forest Service has been the driving force to change the program, not the SBA. In fact, the SBA thinks the proposed changes are unwarranted at this time. Since the SBA is an equal partner with the Forest Service in operation of the program, it is incumbent upon the Committee to carefully consider their position on the proposed changes to the program.

I cannot overemphasize the importance of carefully scrutinizing proposed changes to the Small Business Timber Set Aside Program. We should only consider making adjustments after we have had time to evaluate the changes to the Small Business Timber Set Aside program instituted in 1985. Mr. Chairman, I remain committed to providing Oregon's small timber interests a fair portion of national forest timber sales.

DAW Forest Products Company
Coeur d'Alene Operations – P.O. 1119, Coeur d'Alene, ID 83814 – (208) 765-4717

February 18, 1988

Committee on Small Business
Dale Bumpers, Chairman
SR-42A Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman,

Thank you for holding hearings on a very important subject, the SBA set-aside of federal timber. Please accept the following as written testimony for these hearings. This set-aside program is a classic example of an idea which once worked well and helped our country that now is in dire need of a fix because it is hurting our country.

The only criterium for being small business is that a company must have less than 500 employees. This might have been a reasonable threshold in the past; however, in today's level of sawmilling a company with 500 employees is anything but small.

A mill employee working in a modern sawmill can process 450,000 board feet per year. This volume multiplied times 500 workers results in 225,000,000 board feet of lumber worth over $50,000,000 per year! This is about as small as up to 80% is a "fair proportion" of the public timber set-aside for small business.

This type of small business, when allied with our own government in opposition to other industry interests and our medium sized company of 1300 employees in particular, is enormous. Surely the congressional originators of the SBA set-aside program did not intend for this to happen.

When our operations are analyzed at a mill level we are no longer a large business. It makes no difference to the dependent community or 140 employees at the mill whether we are affiliated with several other mills or none. The mill and community stand alone and also must stand by with their hands tied as a "small" hauls noncompetitively acquired set aside timber out of the area's employment circle. Our company cannot operate in an area where we have historically used Forest Service timber purchases as a major source of our needs and then suddenly find up to 80% of the necessary resource taken away from us.

The proposed Forest Service changes to set-aside regulations represent significant improvements, with the most significant being the decision to stabilize the share percentage. This will hopefully stop the "ratcheting effect" that in the past has been a problem because it is unfair to large business. The changes are not near enough in the areas of adjusting for structural change, deficit volumes, and purchases by non-manufacturers.

STRUCTURAL CHANGE When there is a structural change (a size status change or a mill closure), market forces should be allowed to quickly decide what the equitable new share should be. A reasonable solution to this issue would be to immediately suspend the historical contribution of the impacted business to the SBA share and then let market forces set the appropriate new share level after the next three (3) years of activity.

DEFICIT VOLUME The new proposals also are inadequate in addressing the need to limit set-aside volumes to deficit volume only. Currently, when set-aside volume is "triggered", both the deficit volume and an additional share volume is set aside for small businesses. This doubling up of protected volume for small businesses should be eliminated, since it goes beyond the protection justified by the SBA.

NON-MANUFACTURERS Almost all non-manufacturers who purchase timber sales are true (less than 100 employee) small business loggers and the SBA program as it now functions greatly harms these labor intensive small companies. For example when a logger with 25 employees purchases an SBA set-aside sale he is forced to sell 70% of it to a "small business" with as many as 500 employees. Invariably the "small" mill will take advantage of him and offer him far less for his logs than they are paying for the same item on the open market. If this weren't bad enough, he is then forced to haul his logs past our mill of 140 employees and out of the dependent community !! With this type of ridiculous pressure he quits bidding, his employees suffer, the community suffers, the Forest Service receives less stumpage, and the owner of the small business gains. If, as is surely true, this is not what Congress intends to have happen, then a successful bidder on a set-aside sale should be able to market the logs domestically to his or her best ability. The U.S. Government should not be in the business of restraint of trade.

We are proud members of one of our country's basic industries. This type of industry is essential to the rest of the nation. We provide primary dollars, where none existed before our efforts, which are recirculated up through the economy and we do it with a renewable resource. Please heed the contents of this letter and allow for a balanced presentation in your upcoming hearings.

Enclosed is most of this letter's contents in a more detailed form as submitted to the Forest Service in December of 1987.

Sincerely,

Larry Isenberg

Larry Isenberg
Manager Timber & Lands

cc: Senator McClure
Senator Symms
Representative Craig

Enclosure

DAW Forest Products Company
Coeur d'Alene Operations – P.O. 1119, Coeur d'Alene, ID 83814 – (208) 765-4717

November 20, 1987

F. Dale Robertson, Chief
(2400) Forest Service, USDA
PO Box 96090
Washington, D. C. 20090

This letter is written to provide input to the Forest Service on the proposed changes in the Small Business Administration (SBA) Program. Since this SBA program and its proposed changes are open for public comment, this represents the position of DAW Forest Products Company. Our comment addresses three important aspects to the SBA problem: (1) What is wrong with the program (2) Effects on company employees, and (3) Solutions and comments.

WHAT IS WRONG WITH THE PROGRAM?

The program was established in the early 1970's to "set aside" a certain volume of timber to be designated to go to small businesses who supposedly were unable to purchase enough timber for their mills. It was expected that small and large businesses would co-exist.

This whole concept of "set-aside" originated from the idea that large is better than small. Thus, congress assumed that large is always more efficient, more modern, leaner, and more able to compete than small. In many situations in our country we now know that large is not always more efficient than small. This appears to be especially true in the lumber business.

We operate on several National Forests as a medium-size business. The following table shows most of those forests and the increasing percentages for SBA set aside.

	% SBA SHARE	
NATIONAL FORESTS	1980 - 1985	1985 - 1990
Kootenai	18	33
Ochoco - Prineville	47	70
Idaho Panhandle Coeur d'Alene	30	38
Kaniksu	20	29
St. Joe	32	49
Clearwater	21	61
Colville	41	63
Lolo	17	30

The original small business program was established to provide a "fair proportion" of the public timber to small operators. How can anyone who is unbiased call figures such as those listed above as being a "fair proportion"? These escalations are extremely alarming and clearly signal a problem. **The Increasing Share Bought By Smalls Is A Direct Measure Of Their Competitive Ability.**

This problem is compounded by the fact that much of the above set aside volume sells for less than that from open sales. We have long operated out of Bend and Redmond on several National Forests one of which is the Ochoco. We are the only "large business" (quotes because in reality we are on the small side of medium) competing with several "smalls" (some of these are larger than all but one of our individual plants). When we analyzed the stumpage paid for high quality and increasingly rare Ponderosa Pine over 18 months we found that set-aside sales were bought for $65/MBF less ($4,381,523 on 66.7 MMBF) than they would have been in a fair equally competitive all open program.

If I were no more involved than as a citizen and owner of the National Forests, this would be an outrage. As an employee of DAW, I also want to notify you that our Company is being severely injured by this bidding pattern. In today's lumber market when our own government gives a group of bidders a $65/MBF advantage over another it cannot be over come.

Used in conjunction with the SBA program's ratcheting effect, this $4,381,523.00 advantage has disastrous consequences for our "large" business. The smalls can build up a pool of low priced volume obtained from non-competitve SBA set-aside sales. They can then bid the open sales extremely high, even breakeven is no longer a limit, and average these in with their low priced pool of stumpage. The open sales they buy then have an acceptable stumpage while a large business's successful bids are all unacceptably high. Obviously we then buy less, the SBA set-aside program is increased, and we as citizens and/or a large business are harmed. Louisiana Pacific gave up and left.

We see this same harmful scenario developing on the Colville National Forest. The 1981 - 1985 SBA share was 41%, the 1986 - 1990 share is 63%, and the new share, if calculated today, would be 80%. Soon this program will begin triggering and the employees working for DAW, W-I, WTD, Plum Creek, and Boise Cascade will have their jobs jeopardized. It's time for a down home common sense short question. "Why?" **The Increasing Share Bought By Smalls Is A Direct Measure Of Their Competitive Ability.**

EFFECT ON OUR EMPLOYEES

When our operations are analyzed at a mill or community level we are no longer a large business. It makes no difference to the dependent community or our 300 employees at a mill whether we are affiliated with several other mills or none. The mill and community stand alone and also must stand by with their hands tied as a "small" hauls noncompetitively acquired set-aside timber out of the area's employment circle.

EFFECT ON OUR EMPLOYEES (continued)

Our Company cannot operate in an area where we have historically used Forest Service timber purchases as a major share of our needs and then suddenly find 70% of the necessary resource taken away from us.

Our Company represents a work force of 1400 employees, providing jobs and the major financing of many communities through the Company's payroll. Roads, schools and a community's tax base are determined by the ability of our mills to operate.

In addition, the jobs provided by DAW Forest Products generate approximately $55,000,000 annually in wages and benefits for employees. The $35,000,000 in wages and additional monies spent by the Company for logs, supplies, etc. are primary dollars spent in communities where our mills are generating many jobs and are recirculated seven times. Our mills are sometimes the only industry in these communities.

Our operations and employees have a great deal to be concerned about if the trend of SBA's percentage of available timber escalation is not eliminated. Many jobs and some mills will unnecessarily have to be sacrificed, if the trend is not reversed in the very near future.

SOLUTIONS AND COMMENTS

1) Size Change - We realize that the number of employees limit of 500 is set by the SBA and/or Congress and is not technically open for discussion in this comment process, but its importance requires attention.

   The only criterium for being small business is that a company must have less than 500 employees. This might have been a reasonable criterium in the past; however, in today's level of sawmilling, a company with 500 employees is anything but small.

   A mill employee working in a modern sawmill can process 450,000 board feet per year. If you multiply that times 500 workers, the resulting volume of 225,000,000 board feet is about as small as 80% is a "fair proportion" of the public timber set-aside for small business.

   No one can consider this as "small business"; it represents $50,000,000 in gross sales or enough wood to build 22,500 homes!

   This type of small business, when allied with our own Government in opposition to other industry interests and our Company in particular, is enormous. We don't think the originators of the SBA set-aside program intended for this to happen!

   The present 500 employee size limit criterium should be decreased to reflect the reality of today's business, and we feel a maximum of 100 employees would accomplish this end.

2) SBA Share - The share should be frozen and not be subject to the "ratchet effect." This will prevent abnormal bidding practices that have taken place to protect or enhance shares at the end of a 5 - year cycle. They should not be frozen at 1980 - 1985 levels as proposed, but rather at an original share thru 1985 average level.

This total time period of most of the 70's and one - half of the 80's has been extremely turbulent for the timber industry. Looking through one 5-year window, 1980 - 1985, can easily present a distorted view. Following are four examples of this:

MARKET AREA	ORIGINAL SHARE	80-85 Resultant Share Proposed To Be Frozen	AVERAGE
Snow Mountain	2	63	32
Malheur	11	66	39
Clearwater	23	61	42
Colville	40	63	52

In the real world the smalls are able to bid competitively against the large. Taking into account the successful bidding history of the smalls the above averages could be frozen with no harm to the ability of the smalls to procure timber. This average would present a more accurate picture of reality, return more money to the Treasury, and treat all participants (especially employees) more fairly.

If this concept of averages is not used, then special recomputation for unusual circumstances must be considered. Its interpretation should be broadened to include catastrophic happenings, significant differences in the levels of competition for set aside sales, illegal bidding practices, and possibly others.

There is no way - to pick two examples off the above chart - that a 61% rise in the set aside share on Snow Mountain or a 38% rise on the Clearwater cannot be considered unusual.

3) Structural Change - In case of a structural change the system must perform reliably, accurately, and quickly. If a small buys a large, a small grows to large, or a large buys a small this should be treated as a normal course of events in a free trade country. Witholding any recomputation for three years of purchase and harvest history to elapse is a very effective form of Restraint of Trade. This action is illegal for us and should not be supported or used by our own government. After structural change takes place recomputation of the set-aside share should also immediately take place.

SUMMARY

We are proud members of one of our country's last viable basic industries. This type of industry is absolutely essential to the rest of the nation. We provide primary dollars, where none existed before our efforts, which are recirculated up through the economy and we do it with a renewable resource.

A strong argument can be made that the entire Northwest's economy is timber and lumber dependent. From this point flows the fact that most of this beneficial economy occurs around timber firms of more than 500 employees. Therefore, we don't feel we are "crying wolf" when we explain that being excluded from bidding on as much as 80% of federal timber is detrimental to our company, our employees, the Northwest, and the nation.

Thank you for allowing us the opportunity to comment on what I'm certain everyone agrees with is a major problem.

Sincerely,

DW/md

DAW

DAW Forest Products Company

Plywood Operations - P.O. Box 758, Redmond, OR 97756 - (503) 548-2193

February 22, 1988

Dale Bumpers, Chairman
Committee on Small Business
SR-428A Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

Concerning the upcoming hearings on the Small Business Set-Aside Program, please consider the continued economic well-being of the many small communities where an operation exists that are classified as large business.

DAW Forest Products Company's Plywood Plant at Redmond, Oregon, is a mill that is in such a situation. This operation is being unfairly denied access to available timber supplies under the existing SBA Program.

It is recognized the Forest Service's Proposed Requlations on the SBA Program are significant improvements and should be implemented with some changes as hereinafter expressed.

Shares frozen at 80-85 levels are distorted when compared to original shares. For example: the Malheur NF was originally 11% small business and in 1985 is 66%, and the Ochoco NF Snow Mountain market area was 2% small business and in 1985 is 63% and the Prineville market area was 48% and in 1985 70% small business. Almost every market area in the west has had the small business share ratchet up since the set-aside program was started. The small businesses are able to bid competitively against large businesses as evidenced by the steady increases in set-aside percentages.

This problem is compounded by the fact that much of the set-aside volume sells for less than that of open sales. DAW is currently the only large business competing against several small businesses on the Ochoco National Forest. Upon analyzing the stumpage paid for high quality ponderosa pine over 18 months it became apparent that set-aside sales were bought for \$65.00/MBF less (\$4,381,523 on 66.7 MMBF) than they would have been in a fair equally competitive all open program

Used in conjuction with the SBA programs ratcheting effect this $4,000,000 advantage has disastrous consequences for our lagre business. Small businesses can build a pool of low priced volume obtained from non-competitive SBA Set-Aside sales. They can then bid open sales extremly high, breakeven is no longer a limit, and average these in with their low priced pool of stumpage. The open sales bought by small businesses then have an acceptable stumpage while all of large business's successful bids are unacceptably high. The results are large business buys less and the set-aside program is increased.

When our government gives a group of bidders a $65.00/MBF advantage over another it cannot be overcome!

Another area of distortion is in structural changes that do not materialize. Again I use the Ochoco National Forest for example. A small business grew to a large, then restructured back to small, then was bought by a large which has not purchased any timber sales. If a small buys a large, a small grows to large, or a large buys a small this should be treated a normal course of events in a free trade country. After structural change takes place recomputation of the set-aside share should also immediately take place or at the very least the share change suspended until recomputation so as not to give either side an unfair advantage.

A third distortion is when the share percentage is set-aside plus the deficit volume when a triggering takes place. The problem with selling both deficit volumes and the full base share when set-asides are triggered is that set-asides are likely to be triggered in every six month period. Selling deficit volumes only as set-asides would reduce the total set-asides volume and enhance receipts to the treasury thru a fair and competitive open program.

Thank you for the opportunity to comment on the SBA Set-Aside Program and I hope the final revisions will produce a more fair and equitable program for large business as well as small business.

Sincerely,

Jack E Hinds

Jack E Hinds
Plant Manager

alp

DAW Forest Products Company
Albeni Falls Operations - Route 4, Box 53, Old Town, ID 83822 - (208) 437-3125

February 22, 1988

Dale Bumpers, Chairman
Committee on Small Business
SR-428A Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman;

I am writing to you about my concerns on the upcoming hearings on the Small Business Set-Aside Program. I believe that you should carefully consider the economic health of small communities where a company exists that is classified as large business.

Our DAW Forest Products Company sawmill here at Albeni Falls, Idaho is an operation which is classified as big business. It is my belief that we are unfairly denied access to available timber because of the existing SBA Program.

I feel the Forest Service's Proposed Regulations on the SBA Program contains important improvements over the existing program. I also feel that you should consider the following:

1. The proposed rules do not adequately address a change in the market structure (a mill closure or a size status change). When market structure changes, market forces should be allowed to quickly determine the equitable new share. If the historical contribution of impacted business to the SBA share is suspended, market forces will set the appropriate new share level after the next three (3) years of activity.

2. The new proposals also do not adequately address the need to limit set-aside volumes to deficit volume only. Under the current rules, when set-aside volume is "triggered", not only the deficit volume is set aside, but an additional volume share is also set aside for small businesses. I feel this doubling up of set aside volume is not justified.

Thank you for your attention to this important issue. I sincerely hope that your hearings will explore all the issues of the SBA Program, and will lead to a solution for all concerned.

Sincerely,

Harry Cowger

Harry Cowger
Plant Manager

DAW Forest Products Company
Superior Operations - P.O. Box 580, Superior, MT 59872 - (406) 822-4221

February 23, 1988

Dale Bumpers, Chairman
Committee on Small Business
SR-428A Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman,

Concerning the upcoming hearings on the Small Business Set-Aside Program, please consider the continued economic well-being of the small communities where an operation exists that are classified as large business.

*DAW Forest Products Company's sawmill at Superior, Montana, is a mill that is in such a situation. This operation is being unfairly denied access to available timber supplies under the existing SBA Program.

It is recognized the Forest Service's Proposed Regulations on the SBA Program are significant improvements and should be implemented with some changes as hereinafter expressed.

1. When there is a structural change (a size status change or a mill closure), market forces should be allowed to quickly decide what the equitable new share should be. The proposed rules do not adequately address this issue. A reasonable solution to this issue would be to immediately suspend the historical contribution of the impacted business to the SBA share and then let market forces set the appropriate new share level after the next three (3) years of activity.

2. The new proposals also are inadequate in addressing the need to limit set-aside volumes to deficit volume only. Currently, when set-aside volume is "triggered", both the deficit volume and an additional share volume is set aside for small businesses. This doubling up of protected volume for small businesses should be eliminated, since it goes beyond the protection justified by the SBA.

Thank you for your attention to this important issue and I sincerely hope your hearings will allow for a balanced presentation of the issues.

Sincerely,

Russ Rosco

Russ Rosco
Plant Manager

RR/es

Feb. 23, 1988

Committee on Small Business
Dale Bumper, Chairman
SR-42A Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

I am pleased to note that you are holding hearings on the current status of the SBA set-aside of federal timber. I would like to submit the following as written testimony for these hearings. When first initiated, the SBA Set-aside program was designed to allow small businesses to be able to compete fairly with larger companies, so as to not eliminate them from the market place. Today, however, this well-meant process has become an agent that is destroying the very competition it was created to promote.

There is only one criteria to qualify as a small business in this program. That criteria is that a company have less than 500 employees. In the past labor intensive manufacturing processes this would have encompassed operations with one or two sawmills. Today, with technological advances in common use, this could be a company with a production capacity in excess of 225,000,000 board feet of lumber production valued at over $60,000,000 annually! This is in no way small.

Allowing these size companies exclusive control of up to 80% of the federal timber sale program is not a "fair-proportioning" of our goverments sales offerings. And, I submit it is not within the scope of intentions designed in the program at its inception.

A sawmill in a timber dependent community which is classified as "large" because it is a part of a "large" company is at distinct disadvantage to the "small" sawmill in the same working circle. They may both produce the same volume of wood products, but with up to 80% of the available raw materials set-aside for the "small" mill exclusively, the "large" operator is blatently being discriminated against and ceases to be allowed to be competitive. When up to 80% of the historically used Forest Service timber supply is taken away from the "large" manufacturer, they cease to operate, and the community is the one who suffers as a result.

The Forest Service has proposed some needed changes in this system. The most significant improvement they propose is to stabilize the share percentages, which hopefully will end the "ratcheting effect" currently in place. The current upward periodic ratcheting of the SBA share is totally unfair to large businesses. The other changes they have proposed do not go nearly far enough in the areas of purchases by non-manufacturers, adjustments for structural changes, and deficit volumes.

Typical non-manufacturers who purchase timber sales really are small businesses. They generally employ less than 100 people and are very labor intensive. The SBA set-aside program now in existence significantly hurts these true small businesses. When they purchase a timber sale they are forced to sell 70% of their material to a "small" business who may have up to 5 times as many employees as themselves! This mandated sales restriction causes his logs to be worth far *less than on the open market. Not only does he have to sell his product for less in many cases, but many times he has to transport it greater distances, increasing his costs as well. He gets hit twice in one shot and ultimately cannot remain competitive and goes out of the competitive bidding process. This is in effect, restraint of trade by the U.S. Government and is intolerable! If Congress did not intend this to happen and does not want to be a part of its continuance, then it needs to initiate change that will allow the successful bidder on any SBA set-aside sale to market their products domestically without restriction.*

Structural changes occur when there is a mill closure, or a size status change. Market forces need to be allowed to quickly decide the changed equitable shares associated with these circumstances. Immediate suspension of the historical contribution of the impacted business on the SBA share is a reasonable step towards solution of this problem. Then, a three year period of market forces could be used to establish new share levels for the area involved.

The Forest Services new proposals relative to limiting set-aside volumes to deficit volume are inadequate. Now, when a "triggering" of set-aside volume occurs, both deficit and additional share volumes are set aside for small businesses. This doubles the volume which is protected for the small business. This "double-dipping" must be eliminated from the set-aside process.

I am employed by one of our countries basic industries. We are an essential part of it. The dollars my employer invests in our community are indispensable. They are recirculated many times in our local economy. They are, however, "large" business dollars which are threatened by the current SBA set-aside program. Please consider these comments as you allow for a balanced presentation in your hearings.

Sincerely,

Gary N. Cremer

W-I FOREST PRODUCTS, L.P.

Long Lake Division
P.O. Box 3344
Spokane, WA 99220
(509) 534-1561

February 22, 1988

Committee on Small Business
Dale Bumpers, Chairman
SR-42A Russell Senate Office Bldg
Washington, D.C. 20510

Dear Mr. Chairman,

Thank you for holding hearings on a very important subject, the SBA set-aside of Federal timber. Please accept the following written testimony for these hearings.

In years passed, more employees were required to run a sawmill. With modern mechanization, one employee can produce 450,000 board feet per year. This volume times 500 workers is 225 million board feet, worth $50,000,000 per year. This does not seem to be a fair proportion for "small business", which can obtain up to 80% of public set-aside timber.

Our operations run about 140 employees in most of the mill locations. We are at a point in several areas where 80% of the timber has to be hauled by these mills and sold outside the community.

The proposed Forest Service changes to set-aside regulations represent a significant improvement with regard to stablizing the "share percentage". Changes need to be made with deficit volumes, adjusting for structural change, and purchases by non-manufacturers.

STRUCTURAL CHANGE- When there is a structural change, market forces should be allowed to quickly decide what the equitable new share should be.

DEFICIT VOLUME- The new proposals are inadequate in addressing the need to limit set-aside volumes to deficit volumes only. Currently, both the deficit volume and an additional share volume is set aside for small business. This practice should be eliminated since it goes beyond the protection justified by the SBA.

NON-MANUFACTURERS- The non-manufacturers who purchase timber sales are small, but the SBA program as it now functions does harm these labor intensive small companies.

A logger with 25 employees who purchases an SBA set-aside sale is forced to sell 70% of it to small business with as many as 500 employees. The "small" mill usually takes advantage of the logger and offers him far less than the open market price for the logs. In most cases, the logger hauls a long distance passed the 140 employee mill and the community. The logger, the community and the Forest Service suffer because of this practice. The successful bidder on a set-aside sale should be able to market his or her logs domestically.

Thank you for your attention to these important issues. Please heed the contents of this letter and allow for a balanced presentation in your upcoming hearings.

Sincerely,
W-I Forest Products, L.P.
Long Lake Division

R. Dennis Hierath

R. Dennis Hierath
Resource Manager

RDH;dlh
cc: The Honorable Daniel J Evans
The Honorable Brock Adams
The Honorable Thomas Foley

W-I FOREST PRODUCTS, L.P.

Peshastin Division
P.O. Box 438
Peshastin, WA 98847
(509) 548-5834

February 18, 1988

Dale Bumpers, Chairman
Committee on Small Business
SR-428A Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

Concerning the upcoming hearings on the Small Business Set-Aside Program, please consider the continued economic well-being of the many small communities where an operation exists that are classified as large business.

W-I Forest Products, L.P.'s sawmill at Peshastin, Washington, is a mill that is in such a situation. This operation is being unfairly denied access to available timber supplies under the existing SBA Program.

It is recognized the Forest Service's Proposed Regulations on the SBA Program are significant improvements and should be implemented with some changes as hereinafter expressed.

1. When there is a structural change (a size status change or a mill closure), market forces should be allowed to quickly decide what the equitable new share should be. The proposed rules do not adequately address this issue. A reasonable solution to this issue would be to immediately suspend the historical contribution of the impacted business to the SBA share and then let market forces set the appropriate new share level after the next three (3) years of activity.

2. The new proposals also are inadequate in addressing the need to limit set-aside volumes to deficit volume only. Currently, when set-aside volume is "triggered", both the deficit volume and an additional share volume is set aside for small businesses. This doubling up of protected volume for small businesses should be eliminated, since it goes beyond the protection justified by the SBA.

Thank you for your attention to this important issue, and I sincerely hope your hearings will allow for a balanced presentation of the issues.

Sincerely,
W-I FOREST PRODUCTS, L.P.

Rex Knight
Plant Manager

RK:kf

W-I FOREST PRODUCTS, L.P.

Northwest Timber Division
P.O. Box 610
Coeur d'Alene, ID 83814
(208) 664-2135

February 23, 1988

Dale Bumpers, Chairman
Committee on Small Business
SR-428A Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

Concerning the upcoming hearings on the Small Business Set-Aside Program, please consider the continued economic well-being of the many small communities where an operation exists that are classified as large business.

W-I Forest Products, L.P.'s sawmill at Coeur d'Alene, Idaho, is a mill that is in such a situation. This operation is being unfairly denied access to available timber supplies under the existing SBA Program.

It is recognized the Forest Service's Proposed Regulations on the SBA Program are significant improvements and should be implemented with some changes as hereinafter expressed.

1. The new proposals also are inadequate in addressing the need to limit set-aside volumes to deficit volume only. Currently, when set-aside volume is "triggered" both the deficit volume and an additional share volume is set aside for small businesses. This doubling up of protected volume for small businesses should be elimitated, since it goes beyond the protection justified by the SBA.

2. When there is a structural change (a size status or a mill closure), market forces should be allowed to quickly decide what the equitable new share should be. The proposed rules do not adequately address this issue. A reasonable solution to this issue would be to immediately suspend the historical contribution of the impacted business to the SBA share and then let market forces set the appropriate new share level after the next three (3) years of activity.

Thank you for your attention to this important issue, and I sincerely hope your hearings will allow for a balanced presentation of the issues.

Sincerely,

Jerry Sorbel

Jerry Sorbel
Plant Manager

JS/dle

W-I FOREST PRODUCTS, L.P.

Cashmere Division
P.O. Box 535
Cashmere, WA 98815
(509) 782-2716

Mar. 17, 1988

Dale Bumpers, Chairman
Committee on Small Business
SR-428A Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

Concerning the upcoming hearings on the Small Business Set-Aside Program, please consider the continued economic well-being of the many small communities where an operation exists that are classified as large business.

W-I Forest Products, L.P.'s sawmill at Cashmere, Washington, is a mill that is in such a situation. This operation is being unfairly denied access to available timber supplies under the existing SBA Program.

It is recognized the Forest Service's Proposed Regulations on the SBA Program are significant improvements and should be implemented with some changes as hereinafter expressed.

1. When there is a structural change (a size status change or a mill closure), market forces should be allowed to quickly decide what the equitable new share should be. The proposed rules do not adequately address this issue. A reasonable solution to this issue would be to immediately suspend the historical contribution of the impacted business to the SBA share and then let market forces set the appropriate new share level after the next three (3) years of activity.

2. The new proposals also are inadequate in addressing the need to limit set-aside volumes to deficit volume only. Currently, when set-aside volume is "triggered", both the deficit volume and an additional share volume is set aside for small businesses. This doubling up of protected volume for small businesses should be eliminated, since it goes beyond the protection justified by the SBA.

Thank you for your attention to this important issue, and I sincerely hope your hearings will allow for a balanced presentation of the issues.

Sincerely,

Steve Rossing

Steve Rossing
Plant Manager

FOREST PRODUCTS, INC.
GREGORY

March 4, 1988

The Honorable Dale Bumpers, Chairman
Senate Committee on Small Business
428A Russell Senate Office Building
Washington, DC 20510

Attention: Chuck Culvers

Dear Senator Bumpers:

In connection with the Senate Small Business Committee's hearing on the Forest Service small business timber set-aside program, I would like to make these comments:

Our firm employs about 475 people. It could be much larger, except that we keep the employment under the 500 level to ensure a chance at getting government timber for our mills. I would like to get bigger, but present procedures don't allow for a transfer of our timber share fast enough. I think this issue needs to be addressed. I am sure that the intent of the regulations is not to keep small firms small.

Present procedures and policies do not provide for adequate tracking of those logs winding up in a large company's manufacturing facility. At the present time some small business mill purchase open forest service contracts and sell the logs to large business mills. Those logs count as the small business' share, rather than as large business. This becomes especially important if the small business set-aside share is frozen as proposed. Tracking procedures need to be invoked so that the small business share is accurately determined.

Please feel free to contact me if you need further information on the points that I am trying to make. My new direct dial number is (503) 526-5607.

Sincerely,

William H. Gregory

William H. Gregory
President

WHG/ns

cc: Mr. John C. Ramig
Stoel Rives Boley Jones & Grey
1730 M Street, N.W. - Suite 900
Washington, DC 20036-4505

4800 S.W. GRIFFITH DRIVE BEAVERTON, OREGON 97005-2987 (503) 644-8004
MAILING ADDRESS: P.O. BOX 4400 BEAVERTON, OREGON 97076-4400

STATEMENT OF
DARRELL H. SCHROEDER, PRESIDENT
STIMSON LUMBER COMPANY
PORTLAND, OREGON

SUBMITTED FOR THE RECORD BEFORE THE U.S. SENATE COMMITTEE ON SMALL BUSINESS

CONCERNING THE SMALL BUSINESS TIMBER SET-ASIDE PROGRAM
MARCH 2, 1988

Mr. Chairman:

I appreciate the opportunity to submit for the record certain observations of Stimson Lumber Company regarding the current set-aside program as it is working in the West and to comment on the proposed changes to the set-aside program being considered by the Forest Service.

Stimson Lumber Company is an independent, family-owned and operated lumber company headquartered in Portland, Oregon. The company has operating sawmills within Oregon in Clatskanie, Forest Grove and Oregon City. The company also operates a sawmill in Crescent City, California and a plywood plant in Merlin, Oregon where it does business through a subsidiary, Miller Redwood Company. Stimson employs approximately 950 people and is therefore classified by the Small Business Administration as "other than small business".

Because some of the statements made at the Senate hearing on March 2 by small business representatives may have left certain misconceptions regarding the timber set-aside program, we would like to take this opportunity to review certain factual elements of that program. We believe it is absolutely essential that the Committee understand those elements of the program which the Forest Service is attempting to address.

At this point it would be helpful to highlight the very limited changes being proposed by the Forest Service and to explain the significance of some of the terms used in the administration of the set-aside program.

1. The changes to the current program which are proposed by the Forest Service are:

    A. Freezing small business set-aside shares at 1986 levels except where structural change occurs;

    B. Reducing the threshold of purchase history for structural change computations from 10% to 5%; and

    C. Making the above changes applicable only in the West.

2. The following are definitions of certain terms used in the administration of the timber set-aside program;

   A. "Open sales" means that both small businesses and large businesses are eligible to bid for public timber.

   B. "Set-aside sales" means that only small businesses are eligible to bid for public timber. Large businesses are excluded from bidding.

   C. "Small business share" means that for a particular National Forest, or market area within that forest, the small business community is guaranteed that percentage of all Forest Service timber sales which is equal to the small business history of purchases there for the latest five-year recomputation period. Under this concept, the more sales that are bought by small business during any 5 year cycle, the higher the small business share will be at the time of the next five-year recomputation period. For example, if during 1970-1975 small business purchased 50% of all timber sales in the Gifford Pinchot National Forest then the small business share would have been set at 50% in 1976 for the five-year period 1976-1980. If, during this latter period small business purchased 65% of all sales, then in 1981 the small business share would have been increased to 65% for the period 1981-1985. The more they buy the higher the small business set-aside share rises.

The small business share varies throughout the United States. In the West, where most of the available timber is owned by the federal government, small businesses have always been very active and aggressive timber buyers. As a matter of fact, the timber set-aside program, as we know it today, was implemented in 1971 in response to organized efforts of the small business community. Moreover, the plan to obtain forgiveness from federal timber contracts bought in the late 1970's and early 1980's was conceived and initiated by this same organized small business wood products community in the West. They were ultimately successful in having the Federal Timber Contract Payment Modification Act of 1984 enacted into law whereby they were able to obtain forgiveness from liability for damages due the federal government on 3.5 billion board feet of timber under contract to the organized small businesses in the West. That act was passed to benefit solely those companies in the West and has been widely criticized for the bail-out legislation that it was.

At the Senate hearing on March 2, we heard on several occasions that quaint, but wholly inapplicable phrase "if it ain't broke don't fix it". The fact is that the program in the West is "broken" and desperately needs "fixing". The entire thrust of what the Forest Service is attempting to do is simply to resolve inequities in the program which are peculiar to its operation in that part of the country.

Simply put, the problem in the West is that the small business community has been buying (often at unreasonably high prices) more and more federal timber thereby assuring that their guaranteed share of public timber will continue to increase over the years. In some cases, if the program had been allowed to run unchecked, small business would have been guaranteed 100% of all public timber sales in some market areas of the West. This is hardly a "fair share". For this reason, the Forest Service saw the need in 1985 to place a cap on the small business share to a level that, although unfair to large business, the Forest Service felt would be politically acceptable to the Congress. The cap on the small business share was set at 80% of all Forest Service sales.

An example of small business progressively squeezing out large companies because of the current set-aside program exists in the North Market Area of the Gifford Pinchot National Forest in the State of Washington where Stimson Lumber Company bids for Forest Service timber. Although there has never been a triggered set-aside sale (which means that small business has consistently been able to purchase at least its historical share of timber at open sales without the need for a set-aside) nevertheless, because of small business' aggressive bidding, the small business share in that market area of the forest has risen from an historical low of 64% to a current 80%. What this means is that for any six month period, if small business has not purchased at least 80% of all Forest Service sales there, then during the next six month period Stimson and other large businesses will be prohibited from bidding on 80% of all sales by the Forest Service. Our inability to bid on all sales being offered will be so devastating to us that we will be forced to discontinue operations on our second and third shifts at our mill in Clatskanie which is tributary to the Gifford Pinchot National Forest. Somehow, employees of the large lumber companies seem to be excluded from consideration whenever small business producers come running to the Congress to proclaim that they need protection from competition for themselves and their employees. The situation in the West is that small business is monopolizing timber sales at the expense of the large business operators and causing hardship to our workers and to the communities where we operate.

With regard to the Senate hearing held on March 2, it is noteworthy to observe that not one small businessman said that they could not compete in open sales with large business in the West even though this rationale was supposed to have been the cornerstone for instituting the program in the first place. Quite the opposite is the fact. The success of small business in bidding against large business is reflected in the fact that the small business share, which is based on purchase history, has been progressively increasing to extraordinarily high levels in the West and in many instances is already at the upper limit of 80% of all Forest Service sales. The small business community testimony has always been based on a generalized fear that if the program is not left absolutely untouched, then the program is likely to someday be totally dismantled. The small business community in citing examples of hardship always talk about the "potential" for harm as opposed to giving any actual examples of hardship. The fact of the matter is that in the West the small business community is forcing out large business and creating hardship to the very dependent communities they so sanctimoniously cite as their argument for protesting any changes to the program.

The small business timber set-aside program in the Pacific Northwest is not functioning equitably and is creating extreme hardship for large companies. Problems there must be addressed and the Forest Service, as the agency authorized to administer the program, should be allowed to redress the inequities in the program which are causing severe market dislocations.

Stimson Lumber Company supports the purposes of the Small Business Act but wants the timber set-aside program to operate effectively to assure that both small and large business firms in the West have the opportunity to purchase a fair proportion of the sales of National Forest timber. We would be pleased to provide the Committee with any additional information the Committee feels would be helpful in its deliberations.

PUBLIC TIMBER PURCHASERS GROUP
610 S.W. Broadway - Suite 608 - Portland, Oregon 97205
Area Code 503/223-8827

March 30, 1988

Honorable Dale Bumpers
Chairman, Senate Committee on Small Business
SR-428A Russell Senate Office Building
Constitution Avenue & Delaware Avenue, NE.
Washington, D.C. 20510

Subject: Re: Hearing on Small Business Timber Set-Aside Program, March 2, 1988
Northwest Timber Association Letter, March 18, 1988

Dear Chairman Bumpers:

This is to separate fact from fiction and is in response to the points raised by the Northwest Timber Assiciation in their March 18, 1988 letter. It is requested this letter be a part of the hearing record.

> In a competitive area, and in most all areas of the west, the small business share cannot effectively go down. It can, and generally has gone up.
>
> The term "ratchet effect" describes this Program where the shares easily go up, and have gone up, and seldom, almost never, except under the most unusual circumstances, go down.

The "5% point rule" in the Forest Service regulations governing the Program is the key element which prevented previous share decline (based on purchase history only) and which will prevent future share decline. The Program trigger mechanism generally keeps purchases from falling more than 5% points. A change of 5 percentage points or less previously resulted in a volume carry forward which in effect returned the small business guaranteed share to its previous higher level. Under the present rules, when there would be change of 5% points or less at a future recomputation, the previous and higher share is maintained.

The attached exhibit A is taken from a Forest Service prepared document which made an estimation of probable recalculated SBA shares, in the 34 Forest/Market Areas of the Pacific Northwest Region 6, if there had been a recomputation in October 1987 (following two years of Program purchase and harvest history).

At first glance, it appears that the shares declined on 9 market areas (see circled numbers in the indicated % point change column). In actuality, these indicated minus % point changes would actually result in no change to the share %. As an example, on the Deschutes Forest/Market Area the indicated % point change is -3 but under the rules the current share would be maintained, thus the indicated new share percentage of 30% would actually be raised back to the current small business share percentage for FY 1986-90 of 33%. On the Snoqualmie Market Area (Mt. Baker Forest) the sell level, in column two, would not have been allowed to be as low as 64%, and not less than five percentage points different than the current share. Thus the -9 percentage point change could not happen in practice and the present 75% share would be maintained.

If by some mathematical mistake the sell (purchases) somehow actually turned out to be 64% (and a change of 5% points or more) then under the complicated present Program regulations of a .90 harvest/history ratio, there would be a volume carry forward which would raise the 64% back at least halfway to the previous 75%.

In fairness, there are two market areas--the Wenatchee/Chelan and the Winema, where there is an indicated % point change increase where the .90 purchase/harvest history ratio would nullify those increases and the present share would be maintained. This is recognized in the far left actual % point change column.

> In short, of the 34 market areas in the Pacific Northwest Region 6, if there had been a recomputation on October 1987, there would be increases, and in many cases substantial % point increases, in the small business share in 17 of the market areas. There would be no change on another 17 and in no market areas would the share have declined.

It should be clearly noted that the small business share percentage has continually increased since the first recomputation. The volume weighted original small business share percentage in the Pacific Northwest Region 6, in effect during 1970-75 was 50%. This rose to 54% during 1976-80, following the 1975 share % recomputation. The current small business share percentage is 59%. Taking into account just small business purchases during 1986 and 1987 the share would be 69% (see exhibit B). The same is generally true nationwide (except the south and east) where the original share % was 43%, the current share % is 51% and during 1986-87, under the present Program, the small business community purchased 61% (see exhibit C). A regional breakdown is exhibit D. Also attached are the two charts (exhibit E) presented to the Committee at the hearings by Don Fisher of Bohemia, Inc.. The red lines, 1986 and 1987 purchase and harvest history, tell the story for the states of Oregon and Washington which comprise the Pacific Northwest Region 6.

The Northwest Timber Association letter states "Mr. Fisher cited what appeared to him to be an extreme case, the increase in small business share on the North Umpqua market area from 10% to 37% over the two year period he cited." This trend continues in the 6-month period to date (or 2½ years). Of the 12.1MM volume sold, two sales totalling 4.2MM were purchased by large business. One sale, totalling 7.9MM was purchased by small business in very competitive bidding with a large business. 7.9 of 12.1 is 65%.

One of the problems which faced the large business community during 1986 and 1987, and which will continue for several years, is that the small business community was able to "buy out" a much higher amount of their "unoperatable" timber sales than the large business community (see exhibit F). These very high priced sales purchased prior to 1982 must be operated at a loss, and in many times a heavy loss. The large business community, because they have to operate a much higher amount of these sales than the small business community, can basically not afford to purchase and operate current sales thus allowing small business, and especially the "big-small" segment of the small business community to greatly increase their normal purchase pattern and the small business share. This is clearly shown by Exhibit F where the light green portion of the pie, representing volume operated, and the orange portion of the pie representing volume remaining, clearly shows the difference between the amount of this timber that must be operated by large and small business.

It is true, as pointed out by the Northwest Timber Association, that on an appeal by large business the Forest Service reduced the small business share in the Alsea-Walport market area of the Siuslaw National Forest. Out of almost 100 large business appeals concerning the small business share % (and the volume carry forward which is a hidden effect on the share) this is the only case (with two minor exceptions with little consequences) where there was a share adjustment. The Small Business Administration is most adament in not only not allowing any "unique circumstances" which could possibly benefit large business, but with a good sized staff and constant "overlook" of the Forest Service, strives to continually increase the already excessive small business excesses over large business in the no longer"free and open competitive process"to purchase federal timber sales.

As a final rebutal point to the Northwest Timber Association, under the present Forest Service regulations regarding structural change, there basically cannot be a decline in the small business share when a previously classified small company becomes large, or when a small company ceases operations, because during the three year recomputation period the previous small business purchase share is maintained by the set aside trigger mechanism, thus insuring that small business purchases are maintained at the level before a structural change (see exhibit G with its exhibits). Even if large business increases its harvest amount the small business harvest level in practicality cannot decline enough to make the recomputed share 5% or more and if the indicated change is 5% points or less then the previous and higher share % is maintained. Thus there basically can be no decline under the present structural change mechanism. But there can easily be an increase in the share %. The structural change mechanism must be adjusted and it is the Public Timber Purchasers Group recommendation that when there is a defined structural change, that the entity involved in the structural change previous history be suspensed and after three years there would be a recomputation based on the market forces in effect, harvest and purchase history during that time. In short, suspend and let market activity determine the correct new share. This would still insure a fair proportion for existing small business.

This is a complicated Program. Up to now the small business community has had it "all their way". Fairness dictates that there be reasonable modifications to the present Program while still leaving a solid safety net for small business.

Sincerely,

John K. Gram
President
JKG/cjm
encls.

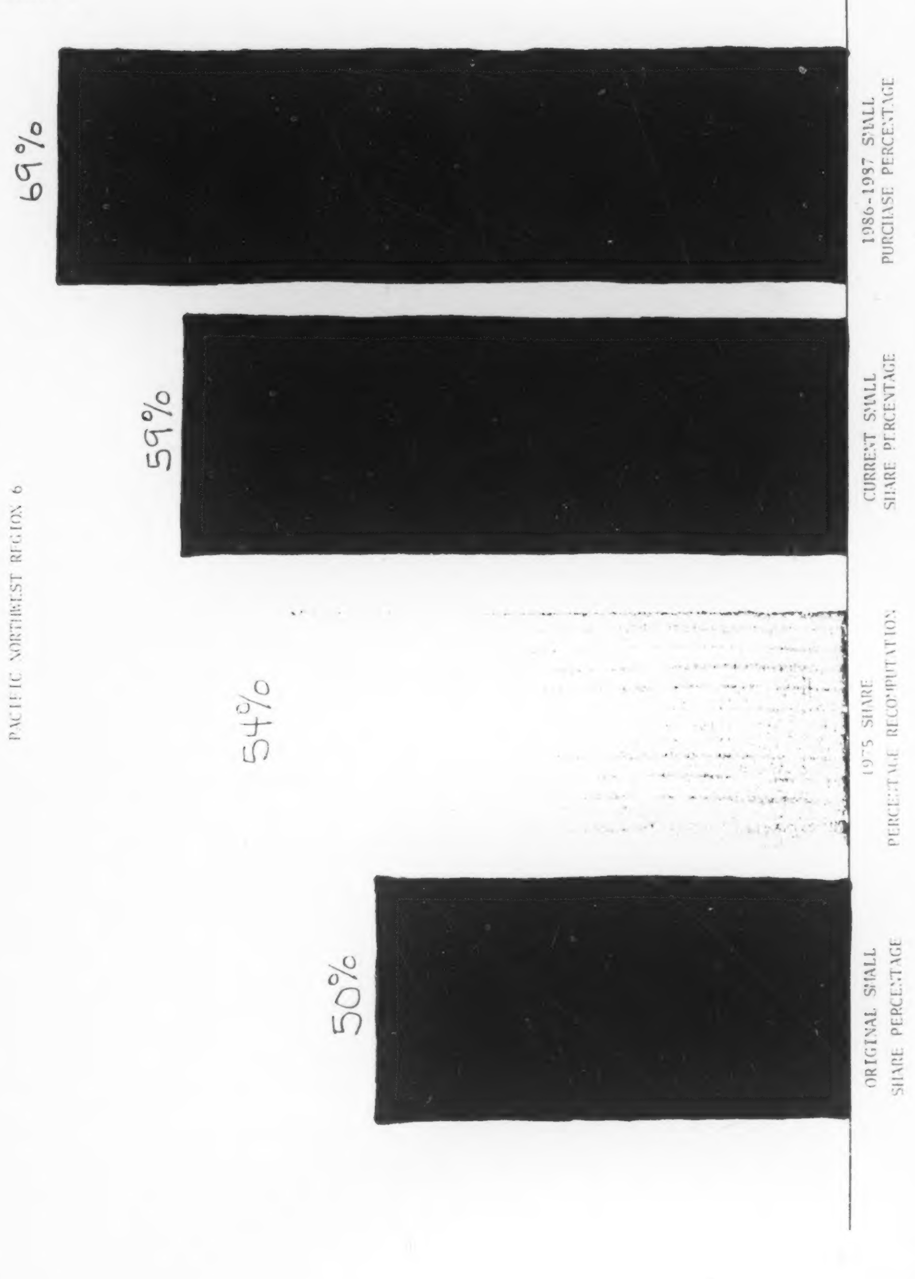
cc: Senator Lowell P. Weicker, Jr.
Senator Mark O. Hatfield
Senator Bob Packwood

EXHIBIT A

UNITED STATES FOREST SERVICE
PACIFIC NORTHWEST REGION 6
SUMMARY OF USFS ESTIMATED RECALCULATED SBA SHARES AS OF OCTOBER 1987

FOREST/MARKET AREA	% SB SHARE FY 86-90	ESTIMATED % SB SHARE 10/1/85-10/31/87 SELL	HARV	NEW	INDICATED % POINT CHANGE	ACTUAL NEW NEW %	ACTUAL % POINT CHANGE
Colville	63	78	67	73	+10	73	+10
Deschutes	33	34	27	30	- 3	33	0
Fremont							
Klamath Basin	62	60	64	62	0	62	0
Lakeview	36	38	32	35	- 1	36	0
Gifford Pinchot							
North	80	83	77	80	0	80	0
South	64	93	98	80	+16	80	+16
Malheur	66	82	92	80	+14	80	+14
Mt. Baker & Snoq.							
Mt. Baker	80	96	96	80	0	80	0
Snoqualmie	75	64	64	64	- 9	75	0
Mt. Hood							
East	80	98	98	80	0	80	0
West	63	70	72	71	+ 8	71	+ 8
Ochoco							
Snow Mountain	63	68	86	75	+12	75	+12
Prineville	70	65	66	65	- 5	70	0
Okanogan	22	29	16	22	0	22	0
Olympic							
Peninsula	61	78	78	78	+17	78	+17
Quinault	71	87	87	80	+ 9	80	+ 9
Rogue River	64	64	63	64	0	64	0
Siskiyou							
East	40	56	73	65	+25	65	+25
West	79	64	90	77	- 2	79	0
Siuslaw							
Hebo	64	86	78	80	+16	80	+16
Mapleton	71	82	71	78	+ 7	78	+ 7
Alsea-Walport	70	80	71	76	+ 6	76	+ 6
Umatilla							
North	46	44	41	43	- 3	46	[illegible]
South	31	52	48	50	+19	52	+1
Umpqua							
North	10	40	67	53	+43	53	[illegible]
South	45	49	40	44	- 1	44	
Wallowa-Whitman	57	51	48	51	- 6	57	0
Wenatchee							
Chelan	36	33	43	39	+ 3	36	0
Kittitas	46	54	49	51	+ 5	51	+ 5
Naches-Tieton	34	36	43	40	+ 6	40	+ 6
Willamette							
North	49	84	67	76	+27	76	+27
Middle	75	69	79	74	- 1	75	0
South	53	58	59	58	+ 5	58	+ 5
Winema	48	48	50	49	+ 1	48	0

EXHIBIT B



PACIFIC NORTHWEST REGION 6

EXHIBIT C

VOLUME WEIGHTED SMALL BUSINESS SHARE PERCENTAGE SUMMARY
NATIONWIDE EXCEPT SOUTH AND EAST

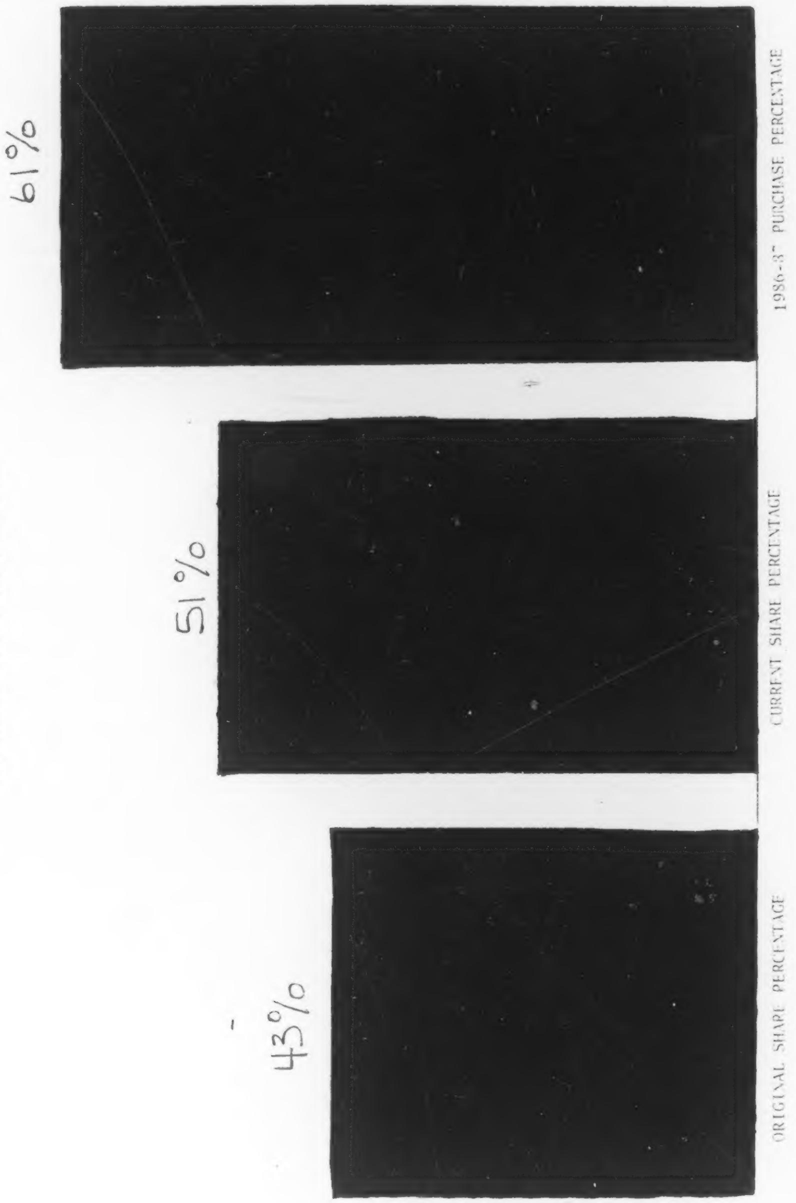


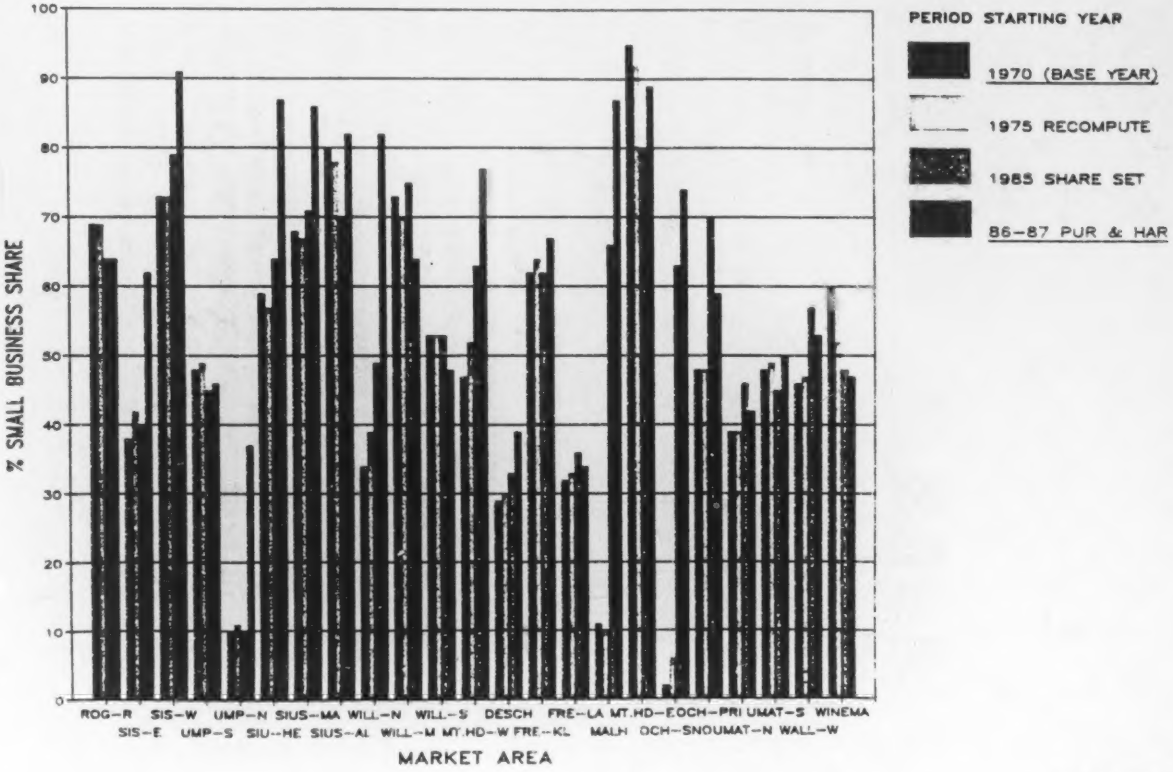
EXHIBIT D

VOLUME WEIGHTED SMALL BUSINESS SHARE PERCENTAGE SUMMARY

REGION	ORIGINAL SHARE %	PRESENT SHARE %	1986-1987 PURCHASE %
1 NORTHERN	32	47	60
2 ROCKY MOUNTAIN	53	56	68
3 SOUTHWESTERN	31	30	26
4 INTERMOUNTAIN	40	51	67
5 PACIFIC SOUTHWEST	30	34	42
6 PACIFIC NORTHWEST	50	59	69
COMBINED	43%	51%	61%

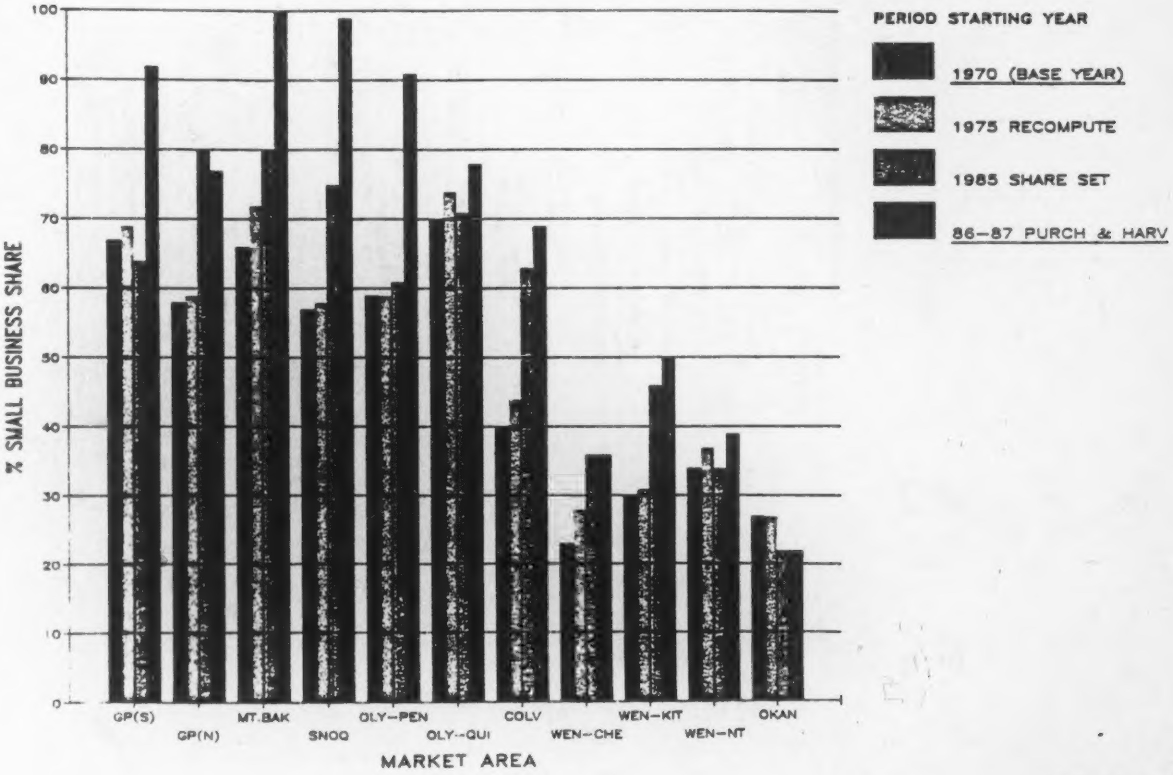
EXHIBIT E

OREGON SBA TIMBER PURCHASE SHARES
TREND IN RECOMPUTED SHARES AND PURCHASE HISTORY



T.L. 1/12/88

WASHINGTON SBA TIMBER PURCHASE SHARES
TREND IN RECOMPUTED SHARES AND PURCHASE HISTORY



T.L. 1/12/88

EXHIBIT F

DISPOSITION OF PRE-1/1/82 SALE VOLUME
FOREST SERVICE REGION 6

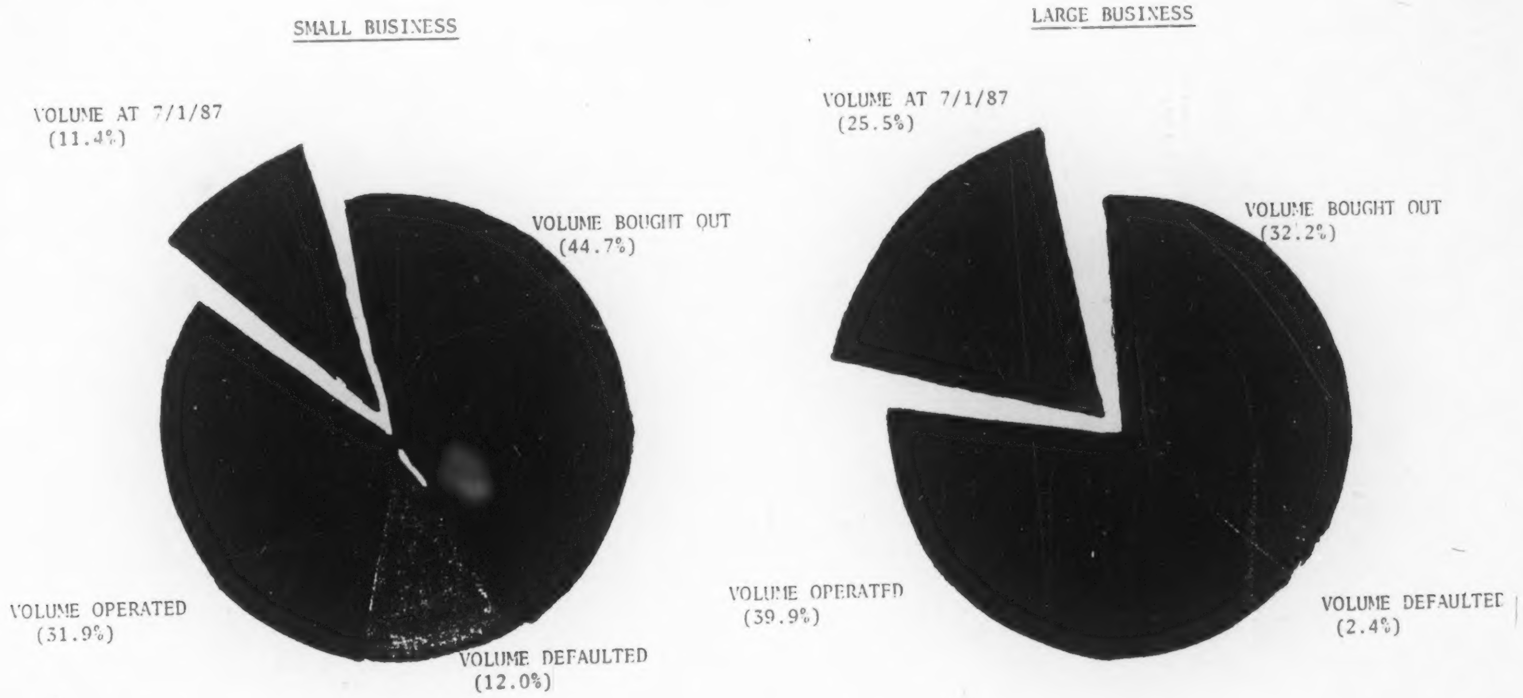


EXHIBIT G

PUBLIC TIMBER PURCHASERS GROUP

610 S.W. Broadway - Suite 608 - Portland, Oregon 97205

Area Code 503-223-8827

December 23, 1987

F. Dale Robertson, Chief (2400)
Forest Service, USDA
P.O. Box 96090
Washington, D.C. 20090

Subject: Small Business Timber Set-Aside Program
Notice of Proposed Policy

Dear Chief:

There is a misconception concerning the actual operation of the structural change mechanism which would be in place if the proposed regulations are adopted without a small adjustment which is simple, workable and fair. The adjustment proposed by the Public Timber Purchasers Group is the concept of placing an entity's past contribution of purchase history, it it has undergone structural change, into suspense and then let market forces determine a new fair proportion share percentage.

When a large company undergoes a structural change to small that entity's past purchase history contribution is suspended---placed in limbo---and then for the next three years market forces determine the new share. In that situation previous share percentage could not be reduced but would probably increase.

When there is a structural change from small to large that entity's purchase history would also be suspended and market forces would determine the new share. It is important to note in this situation that the remaining small businesses continue to receive their fair proportion share percentage guarantee.

Exhibit #1 provides two examples of what happens under the present structural change mechanism. Entity A is where a small takes over a large and remains small. When a small takes over a large it is almost a given that the small will be an agressive bidder and purchase the previous entity's yearly purchases. (It also should be pointed out that the small business community can, and often does, purchase more than their share.) In this illustration of both purchase and harvest history, the previous 50% share, after three years, would increase to at least 60%, a ten percentage point increase or a 20% overall increase.

Entity B is where a large takes over a small and the small becomes large. Though they can bid on more, the smalls are protected for a minimum 50% or 50 MM in purchases. The end result is a new 46% share and what appears to be a four percentage point decline in the share in this situation where a small becomes a large. But there actually is not a decline because to reduce the share the percentage change comparison must be more than five percentage points. In this case the share remains at 50% even with the structural change of a small becoming a large.

The second exhibit chart outlines the PIPG alternative.

The PIPG concept of "suspend and then let the market determine the new share" is simple, fair and workable. It is only a slight adjustment from the proposed regulations published for public comment and follows the 3-year recomputation guidelines.

Best regards.

John K. Gram

John K. Gram
President

JKG/cjm

encl

EXHIBIT 1

50% SHARE - 100MM TOTAL ANNUAL PURCHASES AND HARVEST

10MM ANNUAL PURCHASES BY BOTH ENTITYS A AND B

ENTITY		YEAR 1	YEAR 2	YEAR 3	TOTALS	RECOMPUTATION RESULTS
A	PURCHASES	60	60	60	180	60%
	HARVEST	60	60	60	180	+10% points
					360	
B	PURCHASES	50	50	50	150	~~46%~~ 50%
	HARVEST	40	40	45	125	~~-4% points~~ stays same
					275	

EXHIBIT 2

SUSPEND AND THEN THE MARKET DETERMINES SHARE

TEN PERCENTAGE POINTS SUSPENDED FOR THREE YEARS

SMALL TO LARGE EXAMPLE

40% GUARANTEED TO REMAINING SMALLS
(smalls can buy more)

LARGE TO SMALL EXAMPLE

50% IS THE CONTINUED SMALL GUARANTEE
(smalls can, and probably will, buy more)

AFTER THREE YEARS OF MARKET ACTIVITY RECOMPUTE

MARKET ACTIVITY SETS THE SHARE